

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

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

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

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<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 Allow Odd Lot Orders to Be Displayed and to Aggregate to Form a Protected Quotation.

**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 *	Nathaniel	Last Name *	Kolodny
Title *	Lead Regulation Counsel		
E-mail *	nathaniel.kolodny@iextrading.com		
Telephone *	(646) 343-2034	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	01/06/2021	Lead Regulation Counsel
By	Nathaniel Kolodny	
	(Name *)	Nathaniel Kolodny,

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 way it handles odd lot orders by allowing them to be displayed orders and to aggregate to form a protected quotation. The Exchange has designated this rule change as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>3</sup> and provided the Commission with the notice required by Rule 19b-4(f)(6) thereunder.<sup>4</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 respect to the proposed rule change are complete.

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

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

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

Nathaniel Kolodny  
Lead 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 Exchange proposes to modify the way it handles odd lot orders<sup>5</sup> by allowing them to be displayed orders and to aggregate to form a protected quotation. Specifically, the Exchange proposes to amend IEX Rules 11.190(b), 11.220(a), and 11.240(c) to provide that a User may enter displayed<sup>6</sup> as well as non-displayed<sup>7</sup> odd lot orders and to allow displayed odd lot orders to aggregate to form a Protected Quotation.<sup>8</sup> Additionally, the Exchange proposes to make related changes to IEX Rules 11.190(h) and 11.230(a)(4) to prevent a displayed odd lot order that is not protected from resulting in a lock or cross of IEX's Order Book.<sup>9</sup> The Exchange also proposes to make conforming changes to IEX Rules 11.190(b) and 11.240(c). This proposal would align IEX's treatment of odd lot orders with that of the other national securities exchanges that trade equities (i.e., equities exchanges), as detailed below.

## **BACKGROUND**

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<sup>5</sup> An odd lot order is generally any order of less than 100 shares (the size of a round lot order). See IEX Rule 11.180(a).

<sup>6</sup> See IEX Rule 11.190(b)(1). IEX offers three order types that may be entered as displayed orders: limit, reserve, and Discretionary Limit. See IEX Rule 11.190(a)(1), (b)(2), and (b)(7).

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

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

<sup>9</sup> See IEX Rule 1.160(p).

Currently, all odd lot orders on IEX are treated as non-displayed, whether the User<sup>10</sup> entered the order into the System<sup>11</sup> as an odd lot, or if the order began as a displayed round<sup>12</sup> or mixed<sup>13</sup> lot order, and was subsequently decremented to an odd lot order by execution or User order amendment.<sup>14</sup> When a displayed round or mixed lot order decrements to a non-displayed odd lot order, the order also loses its execution priority as a displayed order and also receives a new timestamp resulting in the order being ranked behind all resting displayed and non-displayed orders on the Order Book at the same price level.<sup>15</sup> Additionally, a displayed order that becomes non-displayed because it decremented to an odd lot will no longer be disseminated on IEX's TOPS,<sup>16</sup> DEEP,<sup>17</sup> and Data Platform<sup>18</sup> data feeds (collectively, the "Data Feeds"), as applicable.

Odd lots comprise an increasingly large portion of all securities transactions – in October 2020, 35.6% of all trades on IEX were odd lot executions. Odd lots account for an even larger percentage of trades on other equities exchanges – in October 2019, nearly half of all trades on equities exchanges were odd lot trades, which was nearly double the

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<sup>10</sup> See IEX Rule 1.160(qq).

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

<sup>12</sup> A round lot order is generally any order of 100 shares or a multiple thereof (e.g., a 1,000 share order constitutes ten (10) round lots). See IEX Rule 11.180(a).

<sup>13</sup> A mixed lot order is generally any order of more than 100 shares that is not a multiple of 100 shares (e.g., orders for 101 shares and 299 shares are both mixed lot orders). See IEX Rule 11.180(a).

<sup>14</sup> See IEX Rule 11.190(b)(4).

<sup>15</sup> See IEX Rule 11.220(a)(1)(C)(vii).

<sup>16</sup> See IEX Rule 11.330(a)(1) (describing how, among other things, TOPS offers aggregated top of book quotations for all displayed orders resting on the Order Book).

<sup>17</sup> See IEX Rule 11.330(a)(3) (describing how, among other things, DEEP provides "aggregated depth of book quotations for all displayed orders resting on the Order Book at each price level").

<sup>18</sup> The IEX Data Platform, known as the "TOPS Viewer," offers both aggregated top of book and aggregated depth of book quotations for all displayed orders resting on the Order Book. See IEX Rule 11.330(a)(2). The IEX Data Platform can be accessed at <https://iextrading.com/apps/tops/>.

number of odd lot trades in 2016.<sup>19</sup> IEX understands that this growth in odd lot trading is driven by the increasing prevalence of stocks priced above \$1,000 per share (which translates to more than \$100,000 in notional value for the standard round lot of 100 shares), as well as computerized trading strategies that increasingly employ odd lots.<sup>20</sup> However, odd lots are not subject to the same requirements as round lot orders under Regulation NMS, primarily in that only round lots can be protected quotations.<sup>21</sup> Thus, the Commission's Division of Trading and Markets has provided guidance that:

trading centers are permitted to establish their own rules for handling odd-lot orders and the odd-lot portions of mixed-lot orders. For example, although trading centers are not required to handle odd-lot orders or the odd-lot portions of mixed lot orders in accordance with the requirements for automated quotations set forth in Rule 600(b)([4]), they are free to incorporate such requirements in their rules if they wish to do so.<sup>22</sup>

Consistent with the above guidance, other equities exchanges have adopted rules that allow for odd lot orders to be displayed, which affects the orders' execution priority and quotation dissemination on each exchange's depth of book feed, where applicable.<sup>23</sup> In addition, equities exchanges enable displayed odd lot orders to aggregate at the same or multiple price points that equal at least one round lot to form a protected quotation

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<sup>19</sup> See Osipovich, Alexander: "Tiny 'Odd Lot' Trades Reach Record Share of U.S. Stock Market," Wall Street Journal (October 23, 2019).

<sup>20</sup> See *supra* note 19.

<sup>21</sup> Regulation NMS defines "bids" and "offers" as the bid price or offer price for one or more round lots of an NMS security, and those definitions are referenced in the definitions of "quotations," "protected bids," and "protected offers." See 17 CFR 242.600(b)(8), (b)(66), and (b)(61).

<sup>22</sup> See FAQ 7.03: "Odd-Lot Orders and Odd-Lot Portions of Mixed-Lot Orders," Division of Trading and Markets: Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS (April 4, 2008), available at <https://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm#sec7>.

<sup>23</sup> See, e.g., The New York Stock Exchange LLC ("NYSE") Rule 7.36(b) ("Display") (describing how unless otherwise instructed, "odd-lot sized Limit Orders ... are considered displayed for ranking purposes").

under Rule 600(b)(62) of Regulation NMS.<sup>24</sup> Similarly, displayed odd lot orders can also be aggregated with displayed round and mixed lot orders at the same price level to form a protected quotation. When displayed odd lot orders aggregate to at least one round lot (either with other odd lot orders or with displayed round and/or mixed lot orders) and comprise the best bid or offer for an exchange, the other equities exchanges treat the aggregated quotation as their top of book quotation, which they disseminate to the appropriate Securities Information Processor (“SIP”) and their own top of book feeds, as applicable.<sup>25</sup>

Based upon informal feedback from Members,<sup>26</sup> IEX understands that there is general interest in having IEX offer displayed odd lot orders, so that such orders are visible on the Exchange’s depth of book feeds, are eligible to aggregate to form a protected quotation, and retain their execution priority consistent with how displayed odd lot orders are treated on other equities exchanges.

### **PROPOSAL**

The Exchange proposes to amend IEX Rules 11.190(b), 11.220(a), and 11.240(c) to provide that Users may enter odd lot orders as either displayed or non-displayed, rank displayed odd lot orders before non-displayed orders at the same price, show displayed odd lot orders on IEX’s DEEP and Data Platform data feeds (collectively the “Depth of Book Data Feeds”), and aggregate displayed odd lot orders at the same or multiple price points that equal at least one round lot for purposes of transmitting the Exchange’s best

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<sup>24</sup> See, e.g., The Nasdaq Stock Market LLC (“Nasdaq”) Rule 4756(c) (“Entry and Display of Quotes and Orders”) (describing the process for how Nasdaq aggregates displayed odd lot orders with other displayed interest to calculate its best ranked displayed orders for dissemination as the exchange’s top of book quotation).

<sup>25</sup> See, e.g., Nasdaq Rule 4756(c).

<sup>26</sup> See IEX Rule 1.160(s).

ranked displayed orders to the appropriate SIP for each security and to IEX's TOPS and Data Platform data feeds (collectively the "Top of Book Data Feeds").<sup>27</sup>

In addition, the Exchange proposes two related changes to prevent a displayed odd lot order that is not aggregated to form a protected quotation from resulting in a lock or cross of IEX's Order Book, as well as conforming changes to IEX Rules 11.190(b) and 11.240(c), each as described below.

Accordingly, with respect to displaying odd lot orders, IEX proposes to amend all the rules describing odd lot orders as non-displayed to reflect that odd lot orders may be either displayed or non-displayed, based upon User instruction per order. Consistent with this change, a displayed round lot order that decrements to an odd lot will retain its displayed status and execution priority, and IEX therefore proposes to remove any references to how decrementing a displayed round lot to an odd lot causes the order to lose its displayed status and execution priority. Thus, displayed odd lot orders would have priority over any non-displayed orders booked at the same price.<sup>28</sup>

As proposed, IEX will display odd lot orders in the same manner it displays round or mixed lot orders, with the exception that an odd lot order that cannot be aggregated with other orders to form at least a round lot, will not be eligible to form a protected quotation and to be disseminated as IEX's top of book quotation. The proposed changes also enumerate the manner in which IEX will aggregate odd lot orders for purposes of forming a quotation that is eligible to be a protected quotation. Specifically, IEX will aggregate all of the displayed odd lot orders at the highest price to buy (or lowest price to

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<sup>27</sup> These proposed rule changes are consistent with how other equities exchanges handle displayed odd lot orders. See *supra* notes 23 and 24.

<sup>28</sup> See IEX Rule 11.220(a)(1)(B).

sell) wherein the aggregate size of all displayed buy (sell) interest in the System greater than or equal (less than or equal) to that price is one round lot or greater. When the aggregate quotation is the Exchange's best ranked displayed order, IEX will disseminate this top of book quotation, rounded down to the nearest round lot,<sup>29</sup> to the appropriate SIP and the entire size of the top of book quotation to IEX's Top of Book Data Feeds.<sup>30</sup> As displayed orders, all of IEX's displayed odd lot interest will also be aggregated at each price level and disseminated to IEX's Depth of Book Data Feeds.<sup>31</sup>

The following example demonstrates how, as proposed, odd lot bids<sup>32</sup> would be aggregated both for dissemination to IEX's Data Products and the SIPs, when applicable:

- Protected NBBO<sup>33</sup> for a stock is 10.00 x 10.10.
- IEX's order book has two resting displayed bids for the stock:
  - Order A is a displayed odd lot to buy 25 shares at \$10.02.
  - Order B is a displayed odd lot to buy 65 shares at \$10.02.
- Orders A and B do not aggregate to a protected quotation and will not be disseminated to the Top of Book Data Feeds and the SIPs.
- IEX will disseminate to its Depth of Book Data Feeds that it has interest to buy 90 shares at \$10.02.
- Order C arrives: a displayed odd lot order to buy 30 shares at \$10.01.
- Orders A, B, and C will aggregate to form a protected quotation at 10.01, which is disseminated to the SIP (as one round lot) and Top of Book Data Feeds as interest to buy 120 shares at \$10.01.

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<sup>29</sup> The SIPs only accept quotations in round lots.

<sup>30</sup> See IEX Rule 11.330(a)(1) and (2).

<sup>31</sup> See IEX Rule 11.330(a)(2) and (3).

<sup>32</sup> The example focuses on the aggregation of displayed odd lot orders to buy, but the same process applies to aggregating displayed odd lot orders to sell, with the exception that the displayed odd lot orders to sell will aggregate at the lowest price wherein the aggregate size of all displayed interest to sell is one round lot or greater.

<sup>33</sup> See IEX Rule 1.160(cc).

- IEX will disseminate to its Depth of Book Data Feeds that it has interest to buy 90 shares at \$10.02 and 30 shares at \$10.01.

As noted above and discussed in the Statutory Basis section below, these proposed changes would align IEX's treatment of odd lot orders with that of the other equities exchanges. Specifically, other equities exchanges allow odd lot orders to be treated as that displayed or non-displayed<sup>34</sup> and to aggregate in the manner proposed.<sup>35</sup>

IEX also proposes several related rule changes to prevent a displayed odd lot order that is not protected from resulting in a lock or cross of IEX's Order Book.

First, IEX proposes to modify its non-displayed price sliding rules to prevent a displayed odd lot order priced equal to or more aggressively than the Midpoint Price<sup>36</sup> from locking or crossing a non-displayed incoming or resting order when the orders are unable to execute against each other because of the non-displayed order's specific conditions.<sup>37</sup> This issue does not arise currently because non-displayed orders are never priced more aggressively than the Midpoint Price in accordance with the "Midpoint Price

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<sup>34</sup> See, e.g., NYSE Rule 7.36(b)(1) (describing how unless otherwise instructed, "odd-lot sized Limit Orders ... are considered displayed for ranking purposes"); Cboe BZX Exchange, Inc. ("Cboe BZX") Rule 11.9(c)(2); Nasdaq Rule 4703(b); and MIAX PEARL, LLC ("MIAX Pearl") Rule 2611(a); and MEMX LLC ("MEMX") Rules 11.2(a) and 11.6(q)(2). See also Securities Exchange Act Release No. 87221 (October 3, 2019), 84 FR 54195 (October 9, 2019) (SR-LTSE-2019-02) (detailing how the Long Term Stock Exchange, Inc. ("LTSE") removed all references to odd lot orders being non-displayed, including removing language about how round lots decrementing to an odd lot become non-displayed and lose their priority, and clarifying that displayed odd lots can aggregate to form a protected quotation).

<sup>35</sup> See, e.g., Nasdaq Rule 4756(c); NYSE Rule 7.36(b)(3); Cboe BZX Rule 21.6(d); MIAX Pearl Rule 2616(b); MEMX Rule 11.9(b)(2); and LTSE Rule 11.410.

<sup>36</sup> See IEX Rule 1.160(t).

<sup>37</sup> The primary situation in which this would arise is if the non-displayed order is a Minimum Quantity order with a User instruction that it cannot match with an order the size of the displayed odd lot. See IEX Rule 11.190(b)(11). Significantly, only non-displayed orders can have specific conditions such as a Minimum Quantity that could prevent a match. *Id.* It is also possible that a non-displayed order would be subject to another specific condition that would prevent matching with a displayed odd lot order in such circumstances, such as a Corporate Discretionary Peg ("C-Peg") order that cannot match because of the pricing conditions applicable to C-Peg orders. See IEX Rule 11.190(b)(16).

Constraint”<sup>38</sup> and a displayed order priced equal to or more aggressively than the Midpoint Price would result in a change in the NBB<sup>39</sup> or NBO<sup>40</sup> and a corresponding change to the Midpoint Price. However, with the introduction of displayed, but unprotected, odd lot orders, there is the potential that a displayed odd lot order would post on the Order Book at a price equal to or more aggressive than the Midpoint Price and would lock or cross<sup>41</sup> a contra-side resting non-displayed order (or be locked or crossed by an incoming non-displayed order) if the non-displayed order’s specific conditions prevent it from matching with the displayed odd lot order.<sup>42</sup>

In order to address this possible scenario, IEX proposes to amend the non-displayed price-sliding rules so that the price of a non-displayed order that, because of its specific conditions, is not executable against a contra-side displayed odd lot order that is priced equal to or more aggressively than the Midpoint Price is adjusted to one (1) minimum price variant (“MPV”)<sup>43</sup> less aggressive than the price of the contra-side displayed odd lot order. Specifically, IEX proposes to modify IEX Rule 11.190(h)(2), and add new subsection (A), to specify that in such a circumstance, the non-displayed order will book at a price one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.

These proposed changes to the non-displayed price sliding rules are thus designed to address the potential that an unprotected displayed odd lot order will result in the IEX

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<sup>38</sup> See IEX Rule 11.190(h)(2).

<sup>39</sup> See IEX Rule 1.160(u).

<sup>40</sup> See IEX Rule 1.160(u).

<sup>41</sup> A non-displayed order would cross the odd lot order if the non-displayed order is priced at the Midpoint and would lock if priced at the same price as the odd lot order.

<sup>42</sup> This scenario would not arise if the contra-side order is a displayed order because displayed orders cannot include a minimum quantity and would execute against the odd lot order.

<sup>43</sup> See IEX Rule 11.210.

Order Book becoming locked or crossed, by sliding orders in a reasonably expected manner based on current IEX rules, and consistent with the rules of several other equities exchanges. For example, Nasdaq re-prices non-displayed orders to a price one (1) MPV less aggressive than the price of a resting contra-side displayed odd lot order if the non-displayed order would lock or cross the displayed odd lot order because the non-displayed order's minimum quantity condition prevents the two orders from matching.<sup>44</sup> Similarly, to avoid a lock or cross on its order book, NYSE reprices orders with a minimum trade size ("MTS") modifier to a less aggressive price than the price of a resting contra-side displayed odd lot order with which it would have matched but for the MTS modifier.<sup>45</sup> And several other exchanges would execute a non-displayed order only at a less aggressive price than a contra-side unprotected displayed odd lot order to prevent the displayed odd lot order crossing each exchange's order book.<sup>46</sup>

This proposed change to the non-displayed price sliding rules applies to all non-displayed orders except for Discretionary Peg ("D-Peg") and C-Peg orders, which also can have specific conditions that prevent them from matching an aggressively priced contra-side displayed odd lot order with which they would otherwise match. However, because D-Peg and C-Peg orders book at a price one (1) MPV less aggressive than the NBBO,<sup>47</sup> they are different from other non-displayed orders and cannot lock or cross a

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<sup>44</sup> See Nasdaq Rule 4703(e).

<sup>45</sup> See NYSE Rule 7.31(i)(3)(C)(i).

<sup>46</sup> These exchanges would execute the order at a price ½ MPV less aggressive than the contra-side displayed odd lot. See Cboe BZX Rules 11.13(a)(4)(C) and (D); MEMX Rules 11.10(a)(4)(C) and (D); and MIAX Pearl Rules 2617(a)(4)(C) and (D). In the same situation, IEX is proposing to re-price the non-displayed order to a price one (1) MPV less aggressive than the contra-side displayed odd lot order, which IEX believes is a minor distinction from the Cboe BZX, MEMX, and MIAX ½ MPV approach.

<sup>47</sup> See IEX Rule 1.160(u).

displayed odd lot order priced equal to or more aggressive than the Midpoint Price.<sup>48</sup>

However, both D-Peg and C-Peg orders have a “discretionary price” that allows them to exercise discretion and execute up to the less aggressive of the limit price (if any) or the Midpoint Price. Therefore, there is a limited circumstance in which a D-Peg or C-Peg could execute at a price that locks or crosses a displayed odd lot order priced at or more aggressively than the Midpoint Price. Accordingly, IEX also proposes to amend the non-displayed price sliding rules to state that in this scenario, the D-Peg or C-Peg order would not be able to exercise discretion up to the Midpoint Price, and instead the discretionary price for a D-Peg or C-Peg order will be either the less aggressive of the order’s limit price (if any) or one (1) MPV less aggressive than the price of the contra-side unprotected displayed odd lot order. This manner of limiting the amount of discretion a D-Peg or C-Peg can exercise to prevent locking or crossing a contra-side displayed odd lot order is also consistent with other aspects of the proposed rule change to avoid locking or crossing an unprotected displayed odd lot order.

Second, the Exchange proposes to revise IEX Rule 11.230(a)(4) to provide that when a displayed order that was previously subject to price sliding to avoid locking or crossing a contra-side protected quotation of an another national securities exchange becomes eligible to be re-priced to a more aggressive price as a result of a change in the NBBO, it will trade with an unprotected displayed odd lot on the IEX Order Book that it would lock or cross as it re-prices. In this circumstance, the orders will execute according to the priority of each order, and the remover of liquidity will be the order with the newest timestamp.

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<sup>48</sup> See IEX Rule 11.190(b)(10) and (16).

Under existing rules, any displayed orders that would be locked or crossed by a displayed order subject to re-pricing would either change the Protected NBBO<sup>49</sup> (if the displayed order is the best bid or best offer), or re-price such that the displayed order does not lock or cross the Protected NBBO.<sup>50</sup> With the introduction of unprotected displayed odd lot orders, it is now possible for a displayed order subject to display price sliding to re-price to a price where it locks or crosses a contra-side unprotected displayed odd lot order. Because IEX rules provide that it will never display a locked market, nor can a locked or crossed market exist within the System,<sup>51</sup> in such a scenario IEX must either again re-price one or both orders, or allow them to execute against each other. IEX believes that allowing these two orders to match when they become executable after re-pricing is consistent with investor expectations that marketable orders will match and could result in price improvement when the trade is at a better price than the NBBO. By contrast, IEX believes that subjecting displayed orders to additional price sliding to avoid locking or crossing a small odd lot order would not benefit investors, would disadvantage the re-pricing orders (because they receive a new timestamp and corresponding reduced priority), and would create unnecessary complexity.

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<sup>49</sup> See IEX Rule 11.240(c)(1).

<sup>50</sup> Under existing rules, a displayed order (all of which are currently protected quotations) that on entry would lock or cross another order on the IEX Order Book will be executed against the resting order. Further, a displayed order will be subject to displayed price sliding to avoid locking or crossing a protected quotation of another national securities exchange and be subsequently re-priced to a more aggressive price if the NBBO changes and it would no longer lock or cross a protected quotation of another national securities exchange. However, a displayed order will not be able to re-price to a more aggressive price if the NBBO has not changed, even if the contra-side protected quotation is now an IEX protected quotation. This is because resting displayed orders do not become active orders that take other resting orders but wait for potential execution with either an incoming order or a non-displayed order that has become active through the recheck process.

<sup>51</sup> See IEX Rule 11.230(a)(4)(C).

IEX's proposal is consistent with the manner in which NYSE matches orders that become marketable against each other as a result of one or both orders re-pricing.<sup>52</sup> And this proposal is also analogous to how several exchanges with post-only order types allow such orders to take liquidity and match under limited circumstances when re-pricing.<sup>53</sup>

Similarly, IEX's proposal to have the orders execute according to the priority of each order is consistent with IEX's order priority rule,<sup>54</sup> other exchange's rules,<sup>55</sup> and the manner in which the System invites resting orders to recheck the IEX Order Book.<sup>56</sup> And the proposal to have the newest order be the remover of liquidity is consistent with the existing practice that the newer arriving order takes any liquidity it finds on an exchange's order book.<sup>57</sup>

Accordingly, IEX proposes to amend IEX rules as described below:

- Modify IEX Rule 11.190(b)(1) ("Displayed Order") to remove the language in subsection (H) providing that displayed orders must be at least one round lot, and that a round lot that decrements to an odd lot will be treated as non-displayed and will receive a new timestamp, and add new text specifying that displayed orders can be odd lots, mixed lots, or round lots.

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<sup>52</sup> See NYSE Rules 7.37(b)(8) and (9) (Resting orders that are repriced and become marketable against contra-side orders on order book will trade consistent with their ranking, and resting orders on both sides of market that reprice and become marketable against one another will trade consistent with their ranking).

<sup>53</sup> See Cboe BZX Rule 11.9(g)(2)(D) (a displayed post only order subject to display-price sliding that can remove displayed liquidity from the exchange's order book will execute if the execution value (including fees/rebates) equals or exceeds the execution value of the post only order providing liquidity); see also Cboe BZX Rule 11.9(c)(6) (describing the circumstances in which a post only order becomes the remover of liquidity). MEMX, MIAX Pearl, and Nasdaq all offer similar functionality in which a post only order subject to price sliding can become the remover of liquidity when the execution results in at least as much price improvement as the if the post only order remained a liquidity provider. See MEMX Rule 11.6(j)(1)(A)(iv); MIAX Pearl Rule 2614(g)(1)(D); Nasdaq Rule 4702(b)(4)(A).

<sup>54</sup> See IEX Rule 11.220.

<sup>55</sup> See *supra* note 52.

<sup>56</sup> See IEX Rule 11.230(a)(4)(D).

<sup>57</sup> See, e.g., NYSE Rule 7.31(d)(3)(B) (when two midpoint liquidity orders match, the order with the newer timestamp is the liquidity-removing order).

- Modify IEX Rule 11.190(b)(2) (“Reserve Order”) to remove the language in subsection (2)(H) providing that reserve orders must be at least one round lot, and to remove the language stating that if the displayed portion of the reserve order decrements to less than a round lot it loses its displayed status and receives a new timestamp. And add new text specifying that if a displayed reserve order is decremented to less than one round lot, the order will continue to be treated as a displayed order and will retain its priority.
- Modify IEX Rule 11.190(b)(4) (“Odd Lot Order”) to remove the language providing that all odd lot orders are non-displayed, and that a displayed order that decrements to less than a round lot is treated by the System as a non-displayed order, and add language specifying that odd lot orders marked for display are only eligible to be protected quotations if aggregated to form at least one round lot.
- Modify IEX Rule 11.190(b)(5) (“Mixed Lot Order”) to remove the language providing that any displayed mixed lot order that decrements to less than a round lot is treated by the System as a non-displayed order.
- Modify Rule IEX 11.190(b)(7) (“Discretionary Limit Order”) to remove the text in subsection (E)(vii) describing how D-Limit orders can only be displayed if they are at least one round lot, and that if a D-Limit order is decremented to less than a round lot it will be treated as non-displayed and given a new timestamp.
- Modify IEX Rule 11.220 (“Priority of Orders”) to remove subsection (a)(1)(C)(vii), which states that a displayed order that decrements to less than a round lot receives a new timestamp and is considered a non-displayed order. And renumber subsection (a)(1)(C)(viii) to (a)(1)(C)(vii), because of the removal of the current subsection (a)(1)(C)(vii).
- Modify IEX Rule 11.220(a)(3) (“Decrementing Order Quantity and Priority”) to remove the two references to how a displayed round lot order becomes a non-displayed order if the order is decremented to less than a round lot, as set forth in the to-be-removed Rule 11.220(a)(1)(C)(vii).
- Modify IEX Rule 11.240(c) (“Dissemination of Quotation Information”) by adding new subsection (2) providing that pursuant to Rule 602 of Reg NMS, the Exchange will transmit for display to the appropriate SIP for each security the aggregate best ranked orders, as detailed in the following subsections:
  - Add new subsection (A), which specifies that the best priced buy order will be the highest price to buy wherein the aggregate size of all displayed buy interest greater than or equal to that price is one round lot or higher.

- Add new subsection (B), which specifies that the aggregated best priced buy order in subsection (A) will be rounded down to the nearest round lot.
- Add new subsection (C), which specifies that the best priced sell order will be the lowest price to sell wherein the aggregate size of all displayed sell interest less than or equal to that price is one round lot or higher.
- Add new (D), which specifies that the aggregated best priced sell order in subsection (C) will be rounded down to the nearest round lot.
- Amend IEX Rule 11.190 to prevent a displayed odd lot order priced equal to or more aggressively than the Midpoint Price from locking or crossing a non-displayed incoming or resting order when the orders are unable to execute against each other because of the non-displayed order's specific conditions as follows:
  - Modify IEX Rule 11.190(h)(2) ("Non-Displayed Price Sliding") to add language providing that a displayed odd lot order booked at a price equal to or more aggressive than the Midpoint Price will affect the resting or discretionary price of non-displayed resting orders as set forth in new subsections (A) and (B).
    - Add subsection (A) specifying that a non-displayed order (other than a D-Peg or C-Peg) that would otherwise be executable against a contra-side displayed odd lot order priced equal to or more aggressively than the Midpoint Price, but for the non-displayed order's specific conditions, will be ranked and displayed by the System at one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.
    - Add subsection (B) specifying that a D-Peg or C-Peg order that would otherwise be executable against a contra-side displayed odd lot order priced equal to or more aggressively than the Midpoint Price, but for the D-Peg or C-Peg order's specific conditions, will be booked by the System in the manner set forth in Rule 11.190(b)(10) or Rule 11.190(b)(16), respectively, but the discretionary price of the order will be limited to the less aggressive of the limit price, if any, or one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.
  - Modify IEX Rule 11.190(b)(10) ("D-Peg") to make a conforming change specifying that the order's discretionary price may be

changed as set forth in new IEX Rule 11.190(h)(2)(B).

- Modify IEX Rule 11.190(b)(16) (“C-Peg”) to make a conforming change specifying that the order’s discretionary price may be changed as set forth in new IEX Rule 11.190(h)(2)(B).
- Amend IEX Rule 11.230 to provide that when a displayed order that was previously subject to price sliding to avoid locking or crossing a contra-side protected quotation of an another national securities exchange becomes eligible to be re-priced to a more aggressive price as a result of a change in the NBBO it will trade with an unprotected displayed odd lot on the IEX Order Book that it would lock or cross as it re-prices as follows:
  - Add subsection (E) to IEX Rule 11.230(a)(4) which specifies that in the case of a displayed order previously subject to price sliding, upon a change to the Order Book or the NBBO that would result in the displayed order re-pricing to a more aggressive price that would lock or cross a resting unprotected displayed odd lot order, the re-pricing order and the displayed odd lot order will execute according to the priority of each order, and the remover of liquidity will be the order with the newest timestamp.
- Make two conforming changes to IEX Rule 11.240(c)(1):
  - Move the phrase “pursuant to IEX Rule 11.220” to be clear it applies to both best-ranked orders to buy and best ranked orders to sell
  - Remove the extraneous sentence about the Exchange maintaining connectivity to the SIPs, which is already addressed in detail in IEX Rule 11.510.

### Implementation

This proposed rule change will be immediately effective upon filing, but subject to the thirty (30) day operative delay. The Exchange anticipates implementing the rule change within ninety (90) days of the effective date and will provide at least ten (10) days’ notice to Members and market participants of the implementation timeline.

#### b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section

6(b) of the Act,<sup>58</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>59</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 foster cooperation and coordination with persons engaged in facilitating transactions in securities, and 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. Specifically, the Exchange believes that providing for displayed odd lot orders is consistent with the protection of investors and the public interest because it is designed to incentivize the entry of additional displayed limit orders on IEX by providing the opportunity for odd lot orders to receive displayed order execution priority and visibility, thereby enhancing price discovery and the overall liquidity profile on the Exchange to the benefit of all market participants.

The Exchange further believes that treating displayed odd lot orders in the same manner as it treats displayed round or mixed lot orders (with the exception that non-aggregated displayed odd lots cannot form a Protected Quotation) is consistent with the Act because such treatment is designed to remove impediments to and perfect the mechanism of a free and open market and national market system by standardizing the treatment of all displayed liquidity on the Exchange, and as discussed in the Purpose section, conforming IEX's treatment of odd lots with those of the other equities exchanges.

Additionally, the Exchange believes that making displayed odd lot orders eligible

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<sup>58</sup> 15 U.S.C. 78f(b).

<sup>59</sup> 15 U.S.C. 78f(b)(5).

to aggregate to form Protected Quotations is consistent with the protection of investors and the public interest because such functionality is designed to increase displayed liquidity on IEX. Specifically, the proposed rule change will enable odd lots priced at the Protected NBBO to increase the size of the Protected NBBO and enable odd lots priced more aggressively than the Protected NBBO to narrow the Protected NBBO (if they can be aggregated to at least one round lot), thereby contributing to the public price discovery process and offering potential price improvement opportunities to market participants that might otherwise be unaware of such better priced interest.

Furthermore, the Exchange believes that allowing odd lots to aggregate to form a quotation and be eligible to be the Exchange's Protected Quotation is consistent with the Act because such functionality is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system by providing market participants greater visibility into liquidity available on the Exchange via the SIPs and IEX's Data Feeds.

In addition, since this proposed rule change would make IEX's treatment of odd lot orders consistent with that of the other equities exchanges,<sup>60</sup> IEX believes that it will promote just and equitable principles of trade and foster cooperation and coordination with persons engaged in facilitating securities transactions because market participants will no longer have to potentially adjust their order routing strategies or trading algorithms to reflect that odd lots are never displayed on IEX, and will be readily able to accommodate the dissemination of displayed odd lots on IEX's Depth of Book Data Feeds. Moreover, IEX does not believe that these proposed changes raise any new or

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<sup>60</sup> See supra notes 23 and 24.

novel issues not already considered by the Commission since other equities exchanges have substantially similar rules.

Furthermore, as discussed in the Purpose section, IEX believes that the proposed revisions to the non-displayed price sliding rules and the execution rules for displayed orders subject to price sliding are consistent with the protection of investors and the public interest because they are designed to avoid an unprotected odd lot order resulting in a locked or crossed market in a manner that would be reasonably expected based on current IEX rules and design, consistent with the rules of several other equities exchanges, and designed to avoid unnecessary complexity.

Specifically, the Exchange believes that the proposed changes to IEX's non-displayed price sliding rules are consistent with the Act because such changes would prevent the unlikely, but possible, situation in which an unprotected odd lot order priced equal to or more aggressively than the Midpoint Price would result in a cross of IEX's Order Book because the displayed odd lot is unable to match with a non-displayed order priced at or more aggressively than the Midpoint Price because of the non-displayed order's specific conditions. These proposed changes are also designed to protect against a D-Peg or C-Peg order exercising discretion to the point that it executes at a price that locks or crosses the price of a contra-side displayed odd lot. The Exchange notes that these changes are designed to remove impediments to and perfect the mechanism of a free and open market and a national market system by protecting market participants from having their non-displayed orders be inadvertently crossed by an unprotected displayed odd lot. This proposed change is also consistent with Regulation NMS's goals of avoiding crossed markets.

Similarly, the Exchange believes that the proposed change to IEX's execution rules to allow displayed orders previously subject to price sliding to match with liquidity provided by a contra-side unprotected displayed odd lot order that the re-pricing order would otherwise lock or cross are consistent with the Act because the proposed rule change is designed to protect investors and the public interest by facilitating the execution of marketable orders that would otherwise be blocked from executing by the price sliding rules in order to prevent the market from becoming locked or crossed, while increasing price improvement opportunities (by allowing the orders to execute at prices more aggressive than the Protected NBBO). Furthermore, as discussed in the Purpose section, this proposed change is consistent with investor expectations and will minimize the unnecessary complexity that would result from requiring an unprotected displayed odd lot order priced more aggressively than the Protected NBBO to force a marketable contra-side displayed order to continually re-price to avoid locking or crossing the contra-side displayed odd lot order.

Moreover, as noted in the Purpose section, other exchanges have adopted similar mechanisms to prevent displayed odd lot orders from resulting in a locked or crossed market (both for non-displayed and displayed orders). Therefore, the Exchange believes that these aspects of the proposed rule change also do not raise any material new or novel issues not previously considered by the Commission.

Additionally, IEX believes that the proposed conforming changes to IEX Rules 11.190(b)(10) and (16) and 11.240(c)(1) further the purposes of the Act because they provide greater clarity and consistency to the IEX Rule Book thereby reducing the potential for confusion of any market participants. Specifically, the proposed conforming

changes to IEX Rules 11.190(b)(10) and (16) will prevent any confusion to market participants about how D-Peg and C-Peg orders' discretionary prices would be impacted by the presence of a contra-side non-displayed order with specific conditions that prevented the otherwise marketable orders from matching. Similarly, the proposed conforming change to IEX Rule 11.240(c)(1) will make clear to market participants that the same priority rules apply to determining both the best-ranked order to buy and the best-ranked order to sell, and to reduce any possible confusion that could arise from the mention of how IEX connects to the SIPs, when all connectivity is addressed in great detail in IEX Rule 11.510.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is designed to enhance IEX's competitiveness with other markets by adopting rules providing for displayed odd lots that are comparable to those in place at other equities exchanges. As discussed in the Purpose section, the proposal is designed to incentivize the entry of additional displayed limit orders on IEX by providing the opportunity for odd lot orders to receive displayed order execution priority and visibility, thereby enhancing price discovery, and increasing the overall displayed liquidity profile on the Exchange to the benefit of all market participants.

IEX's proposed approach to prevent the potential occurrence of an unprotected displayed odd lot order locking or crossing IEX's Order Book is based upon the approaches of other equities exchanges that are designed to mitigate the same issue in a manner consistent with each exchange's particular technical design and functionality. IEX's proposed rule changes are designed to function in reasonably predictable ways consistent with the expectations of market participants and competing equities exchanges that may route odd lot orders to the Exchange. To the extent there are minor differences in IEX's proposed approach to address the potential that an unprotected displayed odd lot order could result in a locked or crossed market, the differences are not based on competitive considerations but rather simply to provide for reasonably predictable outcomes in a manner consistent with IEX's system design.

The Exchange also does not believe that the proposed rule change will impose any burden on intramarket competition because it will apply to all Members in the same manner. All Members are eligible to enter displayed odd lot orders and all Members may continue to use non-displayed odd lot orders. Moreover, the proposal would provide potential benefits to all Members to the extent that there is more liquidity available on IEX as a result of the ability to enter displayed odd lot orders. As discussed above, the proposal is intended to incentivize the entry of additional odd lot orders, which would provide additional available liquidity to all Members.

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>61</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>62</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 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>63</sup>

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>64</sup> because it is consistent with the protection of investors and the public interest because it is designed to incentivize the entry of additional displayed limit orders on IEX by providing the opportunity for odd lot orders to receive displayed order execution priority and visibility, thereby enhancing price discovery and the overall liquidity profile on the Exchange to the benefit of all market participants, as discussed in the Purpose, Statutory Basis, and Burden on Competition sections. Further, the Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest because it would standardize the treatment of all displayed liquidity on the Exchange, and as discussed in the Purpose and

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<sup>61</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>62</sup> 17 CFR 240.19b-4.

<sup>63</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>64</sup> 17 CFR 240.19b-4(f)(6).

Statutory Basis sections, substantially conform IEX's treatment of odd lots with those of the other equities exchanges in a manner consistent with the existing IEX rules and investor expectations.

IEX also does not believe that the proposed changes raise any new or novel material issues that have not already been considered by the Commission because it would substantially conform IEX's treatment of odd lot orders to the manner in which such orders are treated by other equities exchanges, as discussed in the Purpose and Statutory Basis sections. Specifically, the manner in which IEX proposes to allow odd lot orders to be displayed and aggregated to form a protected quote is substantially similar to the functionality of the other equities exchanges.<sup>65</sup> Similarly, IEX's proposed approach to prevent a displayed odd lot order from locking or crossing a non-displayed contra-side order that has a specific condition that prevent the orders from matching is consistent with Nasdaq and NYSE rules,<sup>66</sup> and also similar to the rules of the Cboe BZX, MEMX, and MIAX Pearl exchanges.<sup>67</sup> Finally, the manner in which IEX will match one or more displayed odd lot orders that become executable against a contra-side displayed order as a result of a re-pricing triggered by market changes is consistent with the approaches taken by several other exchanges that match resting orders that re-price to a point of marketability.<sup>68</sup> Accordingly, the Exchange does not believe that the proposed approaches raise any new or novel issues not previously considered by the Commission.

Accordingly, the Exchange has designated this rule filing as non-controversial

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<sup>65</sup> See supra notes 23 and 24.

<sup>66</sup> See supra notes 44 and 45.

<sup>67</sup> See supra note 46.

<sup>68</sup> See supra notes 52 and 53.

under Section 19(b)(3)(A) of the Act<sup>69</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>70</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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

As discussed in the Purpose section, the proposed changes to provide for the display and aggregation of odd lot orders are based on other equities exchanges' rules.<sup>71</sup>

With respect to the proposed changes to prevent an unprotected displayed odd lot order from resulting in a lock or cross of IEX's Order Book, these changes are based in part on the rules of other exchanges, as described below:

- Nasdaq Rule 4703(e) and NYSE Rule 7.31.(i)(3)(C)(i): These rules provide for re-pricing a non-displayed order with a minimum quantity condition to one (1) MPV less aggressive than an aggressively priced contra-side displayed odd lot order (that does not satisfy the condition) to avoid crossing the odd lot, although these rules also apply if the displayed order is a round lot that could not satisfy the non-displayed order's minimum quantity conditions.
- Cboe BZX Rule 11.13(a)(4)(C) and (D), MEMX Rule 11.10(a)(4)(C) and (D), and MIAX Pearl Rule 2617(C) and (D): These rules provide for re-pricing a non-displayed order to prevent it from crossing an aggressively priced unprotected displayed odd lot, although the non-displayed order would be re-priced  $\frac{1}{2}$  MPV less aggressive (rather than one (1) MPV) and also apply if the displayed order is a round lot.
- NYSE Rules 7.37(b)(8) and (9): These rules provide that resting orders that after re-pricing become marketable against contra-side orders on the NYSE book will become "Aggressing Orders" and trade. This functionality is similar to IEX's proposed rule change to allow resting

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<sup>69</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>70</sup> 17 CFR 240.19b-4.

<sup>71</sup> See e.g., NYSE Rule 7.36(b) and Nasdaq Rule 4756(c).

orders that are re-priced and become marketable against contra-side displayed odd lot orders on the order book to trade, although the NYSE rule also applies to re-pricing round lot orders.

- Cboe BZX Rule 11.9(g)(2)(D), MEMX Rule 11.6(j)(1)(A)(iv), MIAX Pearl Rule 2614(g)(1)(D), and Nasdaq Rule 4702(b)(4)(A): Each of these rules provides that a displayed post-only order subject to re-pricing will become a taker and match with a marketable contra-side odd lot order that it would otherwise lock or cross if specified economics are met, although these rules are not limited in their application to odd lot orders.
- NYSE Rule 7.31(d)(3)(B): This rule provides that when two orders match upon at least one order re-pricing, the order with the newest timestamp becomes the taker of liquidity.

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

Not applicable.

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

Not applicable.

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-2021-01)

Self-Regulatory Organizations: Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the Way It Handles Odd Lot Orders by Allowing Them to Be Displayed Orders and to Aggregate to Form a Protected Quotation.

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 Act,<sup>4</sup> and Rule 19b-4 thereunder,<sup>5</sup> IEX is filing with the Commission a proposed rule change to modify the way it handles odd lot orders by allowing them to be displayed orders and to aggregate to form a protected quotation. The Exchange has designated this rule change as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>6</sup> and provided the Commission with

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

the notice required by Rule 19b-4(f)(6) thereunder.<sup>7</sup>

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 Exchange proposes to modify the way it handles odd lot orders<sup>8</sup> by allowing them to be displayed orders and to aggregate to form a protected quotation. Specifically, the Exchange proposes to amend IEX Rules 11.190(b), 11.220(a), and 11.240(c) to provide that a User may enter displayed<sup>9</sup> as well as non-displayed<sup>10</sup> odd lot orders and to allow displayed odd lot orders to aggregate to form a Protected Quotation.<sup>11</sup>

Additionally, the Exchange proposes to make related changes to IEX Rules 11.190(h) and

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<sup>7</sup> 17 CFR 240.19b-4.

<sup>8</sup> An odd lot order is generally any order of less than 100 shares (the size of a round lot order). See IEX Rule 11.180(a).

<sup>9</sup> See IEX Rule 11.190(b)(1). IEX offers three order types that may be entered as displayed orders: limit, reserve, and Discretionary Limit. See IEX Rule 11.190(a)(1), (b)(2), and (b)(7).

<sup>10</sup> See IEX Rule 11.190(b)(3).

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

11.230(a)(4) to prevent a displayed odd lot order that is not protected from resulting in a lock or cross of IEX's Order Book.<sup>12</sup> The Exchange also proposes to make conforming changes to IEX Rules 11.190(b) and 11.240(c). This proposal would align IEX's treatment of odd lot orders with that of the other national securities exchanges that trade equities (i.e., equities exchanges), as detailed below.

### **BACKGROUND**

Currently, all odd lot orders on IEX are treated as non-displayed, whether the User<sup>13</sup> entered the order into the System<sup>14</sup> as an odd lot, or if the order began as a displayed round<sup>15</sup> or mixed<sup>16</sup> lot order, and was subsequently decremented to an odd lot order by execution or User order amendment.<sup>17</sup> When a displayed round or mixed lot order decrements to a non-displayed odd lot order, the order also loses its execution priority as a displayed order and also receives a new timestamp resulting in the order being ranked behind all resting displayed and non-displayed orders on the Order Book at the same price level.<sup>18</sup> Additionally, a displayed order that becomes non-displayed because it decremented to an odd lot will no longer be disseminated on IEX's TOPS,<sup>19</sup> DEEP,<sup>20</sup> and Data Platform<sup>21</sup> data feeds (collectively, the "Data Feeds"), as applicable.

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<sup>12</sup> See IEX Rule 1.160(p).

<sup>13</sup> See IEX Rule 1.160(qq).

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

<sup>15</sup> A round lot order is generally any order of 100 shares or a multiple thereof (e.g., a 1,000 share order constitutes ten (10) round lots). See IEX Rule 11.180(a).

<sup>16</sup> A mixed lot order is generally any order of more than 100 shares that is not a multiple of 100 shares (e.g., orders for 101 shares and 299 shares are both mixed lot orders). See IEX Rule 11.180(a).

<sup>17</sup> See IEX Rule 11.190(b)(4).

<sup>18</sup> See IEX Rule 11.220(a)(1)(C)(vii).

<sup>19</sup> See IEX Rule 11.330(a)(1) (describing how, among other things, TOPS offers aggregated top of book quotations for all displayed orders resting on the Order Book).

<sup>20</sup> See IEX Rule 11.330(a)(3) (describing how, among other things, DEEP provides "aggregated depth of book quotations for all displayed orders resting on the Order Book at each price level").

Odd lots comprise an increasingly large portion of all securities transactions – in October 2020, 35.6% of all trades on IEX were odd lot executions. Odd lots account for an even larger percentage of trades on other equities exchanges – in October 2019, nearly half of all trades on equities exchanges were odd lot trades, which was nearly double the number of odd lot trades in 2016.<sup>22</sup> IEX understands that this growth in odd lot trading is driven by the increasing prevalence of stocks priced above \$1,000 per share (which translates to more than \$100,000 in notional value for the standard round lot of 100 shares), as well as computerized trading strategies that increasingly employ odd lots.<sup>23</sup> However, odd lots are not subject to the same requirements as round lot orders under Regulation NMS, primarily in that only round lots can be protected quotations.<sup>24</sup> Thus, the Commission’s Division of Trading and Markets has provided guidance that:

trading centers are permitted to establish their own rules for handling odd-lot orders and the odd-lot portions of mixed-lot orders. For example, although trading centers are not required to handle odd-lot orders or the odd-lot portions of mixed lot orders in accordance with the requirements for automated quotations set forth in Rule 600(b)([4]), they are free to incorporate such requirements in their rules if they wish to do so.<sup>25</sup>

Consistent with the above guidance, other equities exchanges have adopted rules

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<sup>21</sup> The IEX Data Platform, known as the “TOPS Viewer,” offers both aggregated top of book and aggregated depth of book quotations for all displayed orders resting on the Order Book. See IEX Rule 11.330(a)(2). The IEX Data Platform can be accessed at <https://iextrading.com/apps/tops/>.

<sup>22</sup> See Osipovich, Alexander: “Tiny ‘Odd Lot’ Trades Reach Record Share of U.S. Stock Market,” Wall Street Journal (October 23, 2019).

<sup>23</sup> See *supra* note 22.

<sup>24</sup> Regulation NMS defines “bids” and “offers” as the bid price or offer price for one or more round lots of an NMS security, and those definitions are referenced in the definitions of “quotations,” “protected bids,” and “protected offers.” See 17 CFR 242.600(b)(8), (b)(66), and (b)(61).

<sup>25</sup> See FAQ 7.03: “Odd-Lot Orders and Odd-Lot Portions of Mixed-Lot Orders,” Division of Trading and Markets: Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS (April 4, 2008), available at <https://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm#sec7>.

that allow for odd lot orders to be displayed, which affects the orders' execution priority and quotation dissemination on each exchange's depth of book feed, where applicable.<sup>26</sup> In addition, equities exchanges enable displayed odd lot orders to aggregate at the same or multiple price points that equal at least one round lot to form a protected quotation under Rule 600(b)(62) of Regulation NMS.<sup>27</sup> Similarly, displayed odd lot orders can also be aggregated with displayed round and mixed lot orders at the same price level to form a protected quotation. When displayed odd lot orders aggregate to at least one round lot (either with other odd lot orders or with displayed round and/or mixed lot orders) and comprise the best bid or offer for an exchange, the other equities exchanges treat the aggregated quotation as their top of book quotation, which they disseminate to the appropriate Securities Information Processor ("SIP") and their own top of book feeds, as applicable.<sup>28</sup>

Based upon informal feedback from Members,<sup>29</sup> IEX understands that there is general interest in having IEX offer displayed odd lot orders, so that such orders are visible on the Exchange's depth of book feeds, are eligible to aggregate to form a protected quotation, and retain their execution priority consistent with how displayed odd lot orders are treated on other equities exchanges.

### **PROPOSAL**

The Exchange proposes to amend IEX Rules 11.190(b), 11.220(a), and 11.240(c)

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<sup>26</sup> See, e.g., The New York Stock Exchange LLC ("NYSE") Rule 7.36(b) ("Display") (describing how unless otherwise instructed, "odd-lot sized Limit Orders ... are considered displayed for ranking purposes").

<sup>27</sup> See, e.g., The Nasdaq Stock Market LLC ("Nasdaq") Rule 4756(c) ("Entry and Display of Quotes and Orders") (describing the process for how Nasdaq aggregates displayed odd lot orders with other displayed interest to calculate its best ranked displayed orders for dissemination as the exchange's top of book quotation).

<sup>28</sup> See, e.g., Nasdaq Rule 4756(c).

<sup>29</sup> See IEX Rule 1.160(s).

to provide that Users may enter odd lot orders as either displayed or non-displayed, rank displayed odd lot orders before non-displayed orders at the same price, show displayed odd lot orders on IEX's DEEP and Data Platform data feeds (collectively the "Depth of Book Data Feeds"), and aggregate displayed odd lot orders at the same or multiple price points that equal at least one round lot for purposes of transmitting the Exchange's best ranked displayed orders to the appropriate SIP for each security and to IEX's TOPS and Data Platform data feeds (collectively the "Top of Book Data Feeds").<sup>30</sup>

In addition, the Exchange proposes two related changes to prevent a displayed odd lot order that is not aggregated to form a protected quotation from resulting in a lock or cross of IEX's Order Book, as well as conforming changes to IEX Rules 11.190(b) and 11.240(c), each as described below.

Accordingly, with respect to displaying odd lot orders, IEX proposes to amend all the rules describing odd lot orders as non-displayed to reflect that odd lot orders may be either displayed or non-displayed, based upon User instruction per order. Consistent with this change, a displayed round lot order that decrements to an odd lot will retain its displayed status and execution priority, and IEX therefore proposes to remove any references to how decrementing a displayed round lot to an odd lot causes the order to lose its displayed status and execution priority. Thus, displayed odd lot orders would have priority over any non-displayed orders booked at the same price.<sup>31</sup>

As proposed, IEX will display odd lot orders in the same manner it displays round or mixed lot orders, with the exception that an odd lot order that cannot be aggregated

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<sup>30</sup> These proposed rule changes are consistent with how other equities exchanges handle displayed odd lot orders. See supra notes 26 and 27.

<sup>31</sup> See IEX Rule 11.220(a)(1)(B).

with other orders to form at least a round lot, will not be eligible to form a protected quotation and to be disseminated as IEX's top of book quotation. The proposed changes also enumerate the manner in which IEX will aggregate odd lot orders for purposes of forming a quotation that is eligible to be a protected quotation. Specifically, IEX will aggregate all of the displayed odd lot orders at the highest price to buy (or lowest price to sell) wherein the aggregate size of all displayed buy (sell) interest in the System greater than or equal (less than or equal) to that price is one round lot or greater. When the aggregate quotation is the Exchange's best ranked displayed order, IEX will disseminate this top of book quotation, rounded down to the nearest round lot,<sup>32</sup> to the appropriate SIP and the entire size of the top of book quotation to IEX's Top of Book Data Feeds.<sup>33</sup> As displayed orders, all of IEX's displayed odd lot interest will also be aggregated at each price level and disseminated to IEX's Depth of Book Data Feeds.<sup>34</sup>

The following example demonstrates how, as proposed, odd lot bids<sup>35</sup> would be aggregated both for dissemination to IEX's Data Products and the SIPs, when applicable:

- Protected NBBO<sup>36</sup> for a stock is 10.00 x 10.10.
- IEX's order book has two resting displayed bids for the stock:
  - Order A is a displayed odd lot to buy 25 shares at \$10.02.
  - Order B is a displayed odd lot to buy 65 shares at \$10.02.
- Orders A and B do not aggregate to a protected quotation and will not be disseminated to the Top of Book Data Feeds and the SIPs.

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<sup>32</sup> The SIPs only accept quotations in round lots.

<sup>33</sup> See IEX Rule 11.330(a)(1) and (2).

<sup>34</sup> See IEX Rule 11.330(a)(2) and (3).

<sup>35</sup> The example focuses on the aggregation of displayed odd lot orders to buy, but the same process applies to aggregating displayed odd lot orders to sell, with the exception that the displayed odd lot orders to sell will aggregate at the lowest price wherein the aggregate size of all displayed interest to sell is one round lot or greater.

<sup>36</sup> See IEX Rule 1.160(cc).

- IEX will disseminate to its Depth of Book Data Feeds that it has interest to buy 90 shares at \$10.02.
- Order C arrives: a displayed odd lot order to buy 30 shares at \$10.01.
- Orders A, B, and C will aggregate to form a protected quotation at 10.01, which is disseminated to the SIP (as one round lot) and Top of Book Data Feeds as interest to buy 120 shares at \$10.01.
- IEX will disseminate to its Depth of Book Data Feeds that it has interest to buy 90 shares at \$10.02 and 30 shares at \$10.01.

As noted above and discussed in the Statutory Basis section below, these proposed changes would align IEX's treatment of odd lot orders with that of the other equities exchanges. Specifically, other equities exchanges allow odd lot orders to be treated as displayed or non-displayed<sup>37</sup> and to aggregate in the manner proposed.<sup>38</sup>

IEX also proposes several related rule changes to prevent a displayed odd lot order that is not protected from resulting in a lock or cross of IEX's Order Book.

First, IEX proposes to modify its non-displayed price sliding rules to prevent a displayed odd lot order priced equal to or more aggressively than the Midpoint Price<sup>39</sup> from locking or crossing a non-displayed incoming or resting order when the orders are unable to execute against each other because of the non-displayed order's specific

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<sup>37</sup> See, e.g., NYSE Rule 7.36(b)(1) (describing how unless otherwise instructed, "odd-lot sized Limit Orders ... are considered displayed for ranking purposes"); Cboe BZX Exchange, Inc. ("Cboe BZX") Rule 11.9(c)(2); Nasdaq Rule 4703(b); and MIAX PEARL, LLC ("MIAX Pearl") Rule 2611(a); and MEMX LLC ("MEMX") Rules 11.2(a) and 11.6(q)(2). See also Securities Exchange Act Release No. 87221 (October 3, 2019), 84 FR 54195 (October 9, 2019) (SR-LTSE-2019-02) (detailing how the Long Term Stock Exchange, Inc. ("LTSE") removed all references to odd lot orders being non-displayed, including removing language about how round lots decrementing to an odd lot become non-displayed and lose their priority, and clarifying that displayed odd lots can aggregate to form a protected quotation).

<sup>38</sup> See, e.g., Nasdaq Rule 4756(c); NYSE Rule 7.36(b)(3); Cboe BZX Rule 21.6(d); MIAX Pearl Rule 2616(b); MEMX Rule 11.9(b)(2); and LTSE Rule 11.410.

<sup>39</sup> See IEX Rule 1.160(t).

conditions.<sup>40</sup> This issue does not arise currently because non-displayed orders are never priced more aggressively than the Midpoint Price in accordance with the “Midpoint Price Constraint”<sup>41</sup> and a displayed order priced equal to or more aggressively than the Midpoint Price would result in a change in the NBB<sup>42</sup> or NBO<sup>43</sup> and a corresponding change to the Midpoint Price. However, with the introduction of displayed, but unprotected, odd lot orders, there is the potential that a displayed odd lot order would post on the Order Book at a price equal to or more aggressive than the Midpoint Price and would lock or cross<sup>44</sup> a contra-side resting non-displayed order (or be locked or crossed by an incoming non-displayed order) if the non-displayed order’s specific conditions prevent it from matching with the displayed odd lot order.<sup>45</sup>

In order to address this possible scenario, IEX proposes to amend the non-displayed price-sliding rules so that the price of a non-displayed order that, because of its specific conditions, is not executable against a contra-side displayed odd lot order that is priced equal to or more aggressively than the Midpoint Price is adjusted to one (1) minimum price variant (“MPV”)<sup>46</sup> less aggressive than the price of the contra-side

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<sup>40</sup> The primary situation in which this would arise is if the non-displayed order is a Minimum Quantity order with a User instruction that it cannot match with an order the size of the displayed odd lot. See IEX Rule 11.190(b)(11). Significantly, only non-displayed orders can have specific conditions such as a Minimum Quantity that could prevent a match. Id. It is also possible that a non-displayed order would be subject to another specific condition that would prevent matching with a displayed odd lot order in such circumstances, such as a Corporate Discretionary Peg (“C-Peg”) order that cannot match because of the pricing conditions applicable to C-Peg orders. See IEX Rule 11.190(b)(16).

<sup>41</sup> See IEX Rule 11.190(h)(2).

<sup>42</sup> See IEX Rule 1.160(u).

<sup>43</sup> See IEX Rule 1.160(u).

<sup>44</sup> A non-displayed order would cross the odd lot order if the non-displayed order is priced at the Midpoint and would lock if priced at the same price as the odd lot order.

<sup>45</sup> This scenario would not arise if the contra-side order is a displayed order because displayed orders cannot include a minimum quantity and would execute against the odd lot order.

<sup>46</sup> See IEX Rule 11.210.

displayed odd lot order. Specifically, IEX proposes to modify IEX Rule 11.190(h)(2), and add new subsection (A), to specify that in such a circumstance, the non-displayed order will book at a price one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.

These proposed changes to the non-displayed price sliding rules are thus designed to address the potential that an unprotected displayed odd lot order will result in the IEX Order Book becoming locked or crossed, by sliding orders in a reasonably expected manner based on current IEX rules, and consistent with the rules of several other equities exchanges. For example, Nasdaq re-prices non-displayed orders to a price one (1) MPV less aggressive than the price of a resting contra-side displayed odd lot order if the non-displayed order would lock or cross the displayed odd lot order because the non-displayed order's minimum quantity condition prevents the two orders from matching.<sup>47</sup> Similarly, to avoid a lock or cross on its order book, NYSE reprices orders with a minimum trade size ("MTS") modifier to a less aggressive price than the price of a resting contra-side displayed odd lot order with which it would have matched but for the MTS modifier.<sup>48</sup> And several other exchanges would execute a non-displayed order only at a less aggressive price than a contra-side unprotected displayed odd lot order to prevent the displayed odd lot order crossing each exchange's order book.<sup>49</sup>

This proposed change to the non-displayed price sliding rules applies to all non-

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<sup>47</sup> See Nasdaq Rule 4703(e).

<sup>48</sup> See NYSE Rule 7.31(i)(3)(C)(i).

<sup>49</sup> These exchanges would execute the order at a price ½ MPV less aggressive than the contra-side displayed odd lot. See Cboe BZX Rules 11.13(a)(4)(C) and (D); MEMX Rules 11.10(a)(4)(C) and (D); and MIAX Pearl Rules 2617(a)(4)(C) and (D). In the same situation, IEX is proposing to re-price the non-displayed order to a price one (1) MPV less aggressive than the contra-side displayed odd lot order, which IEX believes is a minor distinction from the Cboe BZX, MEMX, and MIAX ½ MPV approach.

displayed orders except for Discretionary Peg (“D-Peg”) and C-Peg orders, which also can have specific conditions that prevent them from matching an aggressively priced contra-side displayed odd lot order with which they would otherwise match. However, because D-Peg and C-Peg orders book at a price one (1) MPV less aggressive than the NBBO,<sup>50</sup> they are different from other non-displayed orders and cannot lock or cross a displayed odd lot order priced equal to or more aggressive than the Midpoint Price.<sup>51</sup> However, both D-Peg and C-Peg orders have a “discretionary price” that allows them to exercise discretion and execute up to the less aggressive of the limit price (if any) or the Midpoint Price. Therefore, there is a limited circumstance in which a D-Peg or C-Peg could execute at a price that locks or crosses a displayed odd lot order priced at or more aggressively than the Midpoint Price. Accordingly, IEX also proposes to amend the non-displayed price sliding rules to state that in this scenario, the D-Peg or C-Peg order would not be able to exercise discretion up to the Midpoint Price, and instead the discretionary price for a D-Peg or C-Peg order will be either the less aggressive of the order’s limit price (if any) or one (1) MPV less aggressive than the price of the contra-side unprotected displayed odd lot order. This manner of limiting the amount of discretion a D-Peg or C-Peg can exercise to prevent locking or crossing a contra-side displayed odd lot order is also consistent with other aspects of the proposed rule change to avoid locking or crossing an unprotected displayed odd lot order.

Second, the Exchange proposes to revise IEX Rule 11.230(a)(4) to provide that when a displayed order that was previously subject to price sliding to avoid locking or crossing a contra-side protected quotation of an another national securities exchange

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<sup>50</sup> See IEX Rule 1.160(u).

<sup>51</sup> See IEX Rule 11.190(b)(10) and (16).

becomes eligible to be re-priced to a more aggressive price as a result of a change in the NBBO, it will trade with an unprotected displayed odd lot on the IEX Order Book that it would lock or cross as it re-prices. In this circumstance, the orders will execute according to the priority of each order, and the remover of liquidity will be the order with the newest timestamp.

Under existing rules, any displayed orders that would be locked or crossed by a displayed order subject to re-pricing would either change the Protected NBBO<sup>52</sup> (if the displayed order is the best bid or best offer), or re-price such that the displayed order does not lock or cross the Protected NBBO.<sup>53</sup> With the introduction of unprotected displayed odd lot orders, it is now possible for a displayed order subject to display price sliding to re-price to a price where it locks or crosses a contra-side unprotected displayed odd lot order. Because IEX rules provide that it will never display a locked market, nor can a locked or crossed market exist within the System,<sup>54</sup> in such a scenario IEX must either again re-price one or both orders, or allow them to execute against each other. IEX believes that allowing these two orders to match when they become executable after re-pricing is consistent with investor expectations that marketable orders will match and could result in price improvement when the trade is at a better price than the NBBO. By

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<sup>52</sup> See IEX Rule 11.240(c)(1).

<sup>53</sup> Under existing rules, a displayed order (all of which are currently protected quotations) that on entry would lock or cross another order on the IEX Order Book will be executed against the resting order. Further, a displayed order will be subject to displayed price sliding to avoid locking or crossing a protected quotation of another national securities exchange and be subsequently re-priced to a more aggressive price if the NBBO changes and it would no longer lock or cross a protected quotation of another national securities exchange. However, a displayed order will not be able to re-price to a more aggressive price if the NBBO has not changed, even if the contra-side protected quotation is now an IEX protected quotation. This is because resting displayed orders do not become active orders that take other resting orders but wait for potential execution with either an incoming order or a non-displayed order that has become active through the recheck process.

<sup>54</sup> See IEX Rule 11.230(a)(4)(C).

contrast, IEX believes that subjecting displayed orders to additional price sliding to avoid locking or crossing a small odd lot order would not benefit investors, would disadvantage the re-pricing orders (because they receive a new timestamp and corresponding reduced priority), and would create unnecessary complexity.

IEX's proposal is consistent with the manner in which NYSE matches orders that become marketable against each other as a result of one or both orders re-pricing.<sup>55</sup> And this proposal is also analogous to how several exchanges with post-only order types allow such orders to take liquidity and match under limited circumstances when re-pricing.<sup>56</sup>

Similarly, IEX's proposal to have the orders execute according to the priority of each order is consistent with IEX's order priority rule,<sup>57</sup> other exchange's rules,<sup>58</sup> and the manner in which the System invites resting orders to recheck the IEX Order Book.<sup>59</sup> And the proposal to have the newest order be the remover of liquidity is consistent with the existing practice that the newer arriving order takes any liquidity it finds on an exchange's order book.<sup>60</sup>

Accordingly, IEX proposes to amend IEX rules as described below:

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<sup>55</sup> See NYSE Rules 7.37(b)(8) and (9) (Resting orders that are repriced and become marketable against contra-side orders on order book will trade consistent with their ranking, and resting orders on both sides of market that reprice and become marketable against one another will trade consistent with their ranking).

<sup>56</sup> See Cboe BZX Rule 11.9(g)(2)(D) (a displayed post only order subject to display-price sliding that can remove displayed liquidity from the exchange's order book will execute if the execution value (including fees/rebates) equals or exceeds the execution value of the post only order providing liquidity); see also Cboe BZX Rule 11.9(c)(6) (describing the circumstances in which a post only order becomes the remover of liquidity). MEMX, MIAX Pearl, and Nasdaq all offer similar functionality in which a post only order subject to price sliding can become the remover of liquidity when the execution results in at least as much price improvement as the if the post only order remained a liquidity provider. See MEMX Rule 11.6(j)(1)(A)(iv); MIAX Pearl Rule 2614(g)(1)(D); Nasdaq Rule 4702(b)(4)(A).

<sup>57</sup> See IEX Rule 11.220.

<sup>58</sup> See supra note 55.

<sup>59</sup> See IEX Rule 11.230(a)(4)(D).

<sup>60</sup> See, e.g., NYSE Rule 7.31(d)(3)(B) (when two midpoint liquidity orders match, the order with the newer timestamp is the liquidity-removing order).

- Modify IEX Rule 11.190(b)(1) (“Displayed Order”) to remove the language in subsection (H) providing that displayed orders must be at least one round lot, and that a round lot that decrements to an odd lot will be treated as non-displayed and will receive a new timestamp, and add new text specifying that displayed orders can be odd lots, mixed lots, or round lots.
- Modify IEX Rule 11.190(b)(2) (“Reserve Order”) to remove the language in subsection (2)(H) providing that reserve orders must be at least one round lot, and to remove the language stating that if the displayed portion of the reserve order decrements to less than a round lot it loses its displayed status and receives a new timestamp. And add new text specifying that if a displayed reserve order is decremented to less than one round lot, the order will continue to be treated as a displayed order and will retain its priority.
- Modify IEX Rule 11.190(b)(4) (“Odd Lot Order”) to remove the language providing that all odd lot orders are non-displayed, and that a displayed order that decrements to less than a round lot is treated by the System as a non-displayed order, and add language specifying that odd lot orders marked for display are only eligible to be protected quotations if aggregated to form at least one round lot.
- Modify IEX Rule 11.190(b)(5) (“Mixed Lot Order”) to remove the language providing that any displayed mixed lot order that decrements to less than a round lot is treated by the System as a non-displayed order.
- Modify Rule IEX 11.190(b)(7) (“Discretionary Limit Order”) to remove the text in subsection (E)(vii) describing how D-Limit orders can only be displayed if they are at least one round lot, and that if a D-Limit order is decremented to less than a round lot it will be treated as non-displayed and given a new timestamp.
- Modify IEX Rule 11.220 (“Priority of Orders”) to remove subsection (a)(1)(C)(vii), which states that a displayed order that decrements to less than a round lot receives a new timestamp and is considered a non-displayed order. And renumber subsection (a)(1)(C)(viii) to (a)(1)(C)(vii), because of the removal of the current subsection (a)(1)(C)(vii).
- Modify IEX Rule 11.220(a)(3) (“Decrementing Order Quantity and Priority”) to remove the two references to how a displayed round lot order becomes a non-displayed order if the order is decremented to less than a round lot, as set forth in the to-be-removed Rule 11.220(a)(1)(C)(vii).
- Modify IEX Rule 11.240(c) (“Dissemination of Quotation Information”) by adding new subsection (2) providing that pursuant to Rule 602 of Reg NMS, the Exchange will transmit for display to the appropriate SIP for

each security the aggregate best ranked orders, as detailed in the following subsections:

- Add new subsection (A), which specifies that the best priced buy order will be the highest price to buy wherein the aggregate size of all displayed buy interest greater than or equal to that price is one round lot or higher.
  - Add new subsection (B), which specifies that the aggregated best priced buy order in subsection (A) will be rounded down to the nearest round lot.
  - Add new subsection (C), which specifies that the best priced sell order will be the lowest price to sell wherein the aggregate size of all displayed sell interest less than or equal to that price is one round lot or higher.
  - Add new (D), which specifies that the aggregated best priced sell order in subsection (C) will be rounded down to the nearest round lot.
- Amend IEX Rule 11.190 to prevent a displayed odd lot order priced equal to or more aggressively than the Midpoint Price from locking or crossing a non-displayed incoming or resting order when the orders are unable to execute against each other because of the non-displayed order's specific conditions as follows:
    - Modify IEX Rule 11.190(h)(2) ("Non-Displayed Price Sliding") to add language providing that a displayed odd lot order booked at a price equal to or more aggressive than the Midpoint Price will affect the resting or discretionary price of non-displayed resting orders as set forth in new subsections (A) and (B).
      - Add subsection (A) specifying that a non-displayed order (other than a D-Peg or C-Peg) that would otherwise be executable against a contra-side displayed odd lot order priced equal to or more aggressively than the Midpoint Price, but for the non-displayed order's specific conditions, will be ranked and displayed by the System at one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.
      - Add subsection (B) specifying that a D-Peg or C-Peg order that would otherwise be executable against a contra-side displayed odd lot order priced equal to or more aggressively than the Midpoint Price, but for the D-Peg or C-Peg order's specific conditions, will be booked by the

System in the manner set forth in Rule 11.190(b)(10) or Rule 11.190(b)(16), respectively, but the discretionary price of the order will be limited to the less aggressive of the limit price, if any, or one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.

- Modify IEX Rule 11.190(b)(10) (“D-Peg”) to make a conforming change specifying that the order’s discretionary price may be changed as set forth in new IEX Rule 11.190(h)(2)(B).
- Modify IEX Rule 11.190(b)(16) (“C-Peg”) to make a conforming change specifying that the order’s discretionary price may be changed as set forth in new IEX Rule 11.190(h)(2)(B).
- Amend IEX Rule 11.230 to provide that when a displayed order that was previously subject to price sliding to avoid locking or crossing a contra-side protected quotation of an another national securities exchange becomes eligible to be re-priced to a more aggressive price as a result of a change in the NBBO it will trade with an unprotected displayed odd lot on the IEX Order Book that it would lock or cross as it re-prices as follows:
  - Add subsection (E) to IEX Rule 11.230(a)(4) which specifies that in the case of a displayed order previously subject to price sliding, upon a change to the Order Book or the NBBO that would result in the displayed order re-pricing to a more aggressive price that would lock or cross a resting unprotected displayed odd lot order, the re-pricing order and the displayed odd lot order will execute according to the priority of each order, and the remover of liquidity will be the order with the newest timestamp.
- Make two conforming changes to IEX Rule 11.240(c)(1):
  - Move the phrase “pursuant to IEX Rule 11.220” to be clear it applies to both best-ranked orders to buy and best ranked orders to sell
  - Remove the extraneous sentence about the Exchange maintaining connectivity to the SIPs, which is already addressed in detail in IEX Rule 11.510.

#### Implementation

This proposed rule change will be immediately effective upon filing, but subject to the thirty (30) day operative delay. The Exchange anticipates implementing the rule change within ninety (90) days of the effective date and will provide at least ten (10)

days' notice to Members and market participants of the implementation timeline.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>61</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>62</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 foster cooperation and coordination with persons engaged in facilitating transactions in securities, and 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. Specifically, the Exchange believes that providing for displayed odd lot orders is consistent with the protection of investors and the public interest because it is designed to incentivize the entry of additional displayed limit orders on IEX by providing the opportunity for odd lot orders to receive displayed order execution priority and visibility, thereby enhancing price discovery and the overall liquidity profile on the Exchange to the benefit of all market participants.

The Exchange further believes that treating displayed odd lot orders in the same manner as it treats displayed round or mixed lot orders (with the exception that non-aggregated displayed odd lots cannot form a Protected Quotation) is consistent with the Act because such treatment is designed to remove impediments to and perfect the mechanism of a free and open market and national market system by standardizing the treatment of all displayed liquidity on the Exchange, and as discussed in the Purpose section, conforming IEX's treatment of odd lots with those of the other equities

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<sup>61</sup> 15 U.S.C. 78f(b).

<sup>62</sup> 15 U.S.C. 78f(b)(5).

exchanges.

Additionally, the Exchange believes that making displayed odd lot orders eligible to aggregate to form Protected Quotations is consistent with the protection of investors and the public interest because such functionality is designed to increase displayed liquidity on IEX. Specifically, the proposed rule change will enable odd lots priced at the Protected NBBO to increase the size of the Protected NBBO and enable odd lots priced more aggressively than the Protected NBBO to narrow the Protected NBBO (if they can be aggregated to at least one round lot), thereby contributing to the public price discovery process and offering potential price improvement opportunities to market participants that might otherwise be unaware of such better priced interest.

Furthermore, the Exchange believes that allowing odd lots to aggregate to form a quotation and be eligible to be the Exchange's Protected Quotation is consistent with the Act because such functionality is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system by providing market participants greater visibility into liquidity available on the Exchange via the SIPs and IEX's Data Feeds.

In addition, since this proposed rule change would make IEX's treatment of odd lot orders consistent with that of the other equities exchanges,<sup>63</sup> IEX believes that it will promote just and equitable principles of trade and foster cooperation and coordination with persons engaged in facilitating securities transactions because market participants will no longer have to potentially adjust their order routing strategies or trading algorithms to reflect that odd lots are never displayed on IEX, and will be readily able to

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<sup>63</sup> See supra notes 26 and 27.

accommodate the dissemination of displayed odd lots on IEX's Depth of Book Data Feeds. Moreover, IEX does not believe that these proposed changes raise any new or novel issues not already considered by the Commission since other equities exchanges have substantially similar rules.

Furthermore, as discussed in the Purpose section, IEX believes that the proposed revisions to the non-displayed price sliding rules and the execution rules for displayed orders subject to price sliding are consistent with the protection of investors and the public interest because they are designed to avoid an unprotected odd lot order resulting in a locked or crossed market in a manner that would be reasonably expected based on current IEX rules and design, consistent with the rules of several other equities exchanges, and designed to avoid unnecessary complexity.

Specifically, the Exchange believes that the proposed changes to IEX's non-displayed price sliding rules are consistent with the Act because such changes would prevent the unlikely, but possible, situation in which an unprotected odd lot order priced equal to or more aggressively than the Midpoint Price would result in a cross of IEX's Order Book because the displayed odd lot is unable to match with a non-displayed order priced at or more aggressively than the Midpoint Price because of the non-displayed order's specific conditions. These proposed changes are also designed to protect against a D-Peg or C-Peg order exercising discretion to the point that it executes at a price that locks or crosses the price of a contra-side displayed odd lot. The Exchange notes that these changes are designed to remove impediments to and perfect the mechanism of a free and open market and a national market system by protecting market participants from having their non-displayed orders be inadvertently crossed by an unprotected

displayed odd lot. This proposed change is also consistent with Regulation NMS's goals of avoiding crossed markets.

Similarly, the Exchange believes that the proposed change to IEX's execution rules to allow displayed orders previously subject to price sliding to match with liquidity provided by a contra-side unprotected displayed odd lot order that the re-pricing order would otherwise lock or cross are consistent with the Act because the proposed rule change is designed to protect investors and the public interest by facilitating the execution of marketable orders that would otherwise be blocked from executing by the price sliding rules in order to prevent the market from becoming locked or crossed, while increasing price improvement opportunities (by allowing the orders to execute at prices more aggressive than the Protected NBBO). Furthermore, as discussed in the Purpose section, this proposed change is consistent with investor expectations and will minimize the unnecessary complexity that would result from requiring an unprotected displayed odd lot order priced more aggressively than the Protected NBBO to force a marketable contra-side displayed order to continually re-price to avoid locking or crossing the contra-side displayed odd lot order.

Moreover, as noted in the Purpose section, other exchanges have adopted similar mechanisms to prevent displayed odd lot orders from resulting in a locked or crossed market (both for non-displayed and displayed orders). Therefore, the Exchange believes that these aspects of the proposed rule change also do not raise any material new or novel issues not previously considered by the Commission.

Additionally, IEX believes that the proposed conforming changes to IEX Rules 11.190(b)(10) and (16) and 11.240(c)(1) further the purposes of the Act because they

provide greater clarity and consistency to the IEX Rule Book thereby reducing the potential for confusion of any market participants. Specifically, the proposed conforming changes to IEX Rules 11.190(b)(10) and (16) will prevent any confusion to market participants about how D-Peg and C-Peg orders' discretionary prices would be impacted by the presence of a contra-side non-displayed order with specific conditions that prevented the otherwise marketable orders from matching. Similarly, the proposed conforming change to IEX Rule 11.240(c)(1) will make clear to market participants that the same priority rules apply to determining both the best-ranked order to buy and the best-ranked order to sell, and to reduce any possible confusion that could arise from the mention of how IEX connects to the SIPs, when all connectivity is addressed in great detail in IEX Rule 11.510.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is designed to enhance IEX's competitiveness with other markets by adopting rules providing for displayed odd lots that are comparable to those in place at other equities exchanges. As discussed in the Purpose section, the proposal is designed to incentivize the entry of additional displayed limit orders on IEX by providing the opportunity for odd lot orders to receive displayed order execution priority and visibility, thereby enhancing price discovery, and increasing

the overall displayed liquidity profile on the Exchange to the benefit of all market participants.

IEX's proposed approach to prevent the potential occurrence of an unprotected displayed odd lot order locking or crossing IEX's Order Book is based upon the approaches of other equities exchanges that are designed to mitigate the same issue in a manner consistent with each exchange's particular technical design and functionality. IEX's proposed rule changes are designed to function in reasonably predictable ways consistent with the expectations of market participants and competing equities exchanges that may route odd lot orders to the Exchange. To the extent there are minor differences in IEX's proposed approach to address the potential that an unprotected displayed odd lot order could result in a locked or crossed market, the differences are not based on competitive considerations but rather simply to provide for reasonably predictable outcomes in a manner consistent with IEX's system design.

The Exchange also does not believe that the proposed rule change will impose any burden on intramarket competition because it will apply to all Members in the same manner. All Members are eligible to enter displayed odd lot orders and all Members may continue to use non-displayed odd lot orders. Moreover, the proposal would provide potential benefits to all Members to the extent that there is more liquidity available on IEX as a result of the ability to enter displayed odd lot orders. As discussed above, the proposal is intended to incentivize the entry of additional odd lot orders, which would provide additional available liquidity to all Members.

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>64</sup> of the Act and Rule 19b-4(f)(6)<sup>65</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 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.

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>66</sup> because it is consistent with the protection of investors and the public interest because it is designed to incentivize the entry of additional displayed limit orders on IEX by providing the opportunity for odd lot orders to receive displayed order execution priority and visibility, thereby enhancing price discovery and the overall liquidity profile on the Exchange to the benefit of all market participants, as discussed in the Purpose, Statutory Basis, and Burden on Competition sections. Further, the Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest because it would standardize the treatment of all displayed liquidity on the Exchange, and as discussed in the Purpose and Statutory Basis sections, substantially conform IEX's treatment of odd lots with those of the other equities exchanges in a manner consistent with the existing IEX rules and investor expectations.

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<sup>64</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>65</sup> 17 CFR 240.19b-4(f)(6).

<sup>66</sup> 17 CFR 240.19b-4(f)(6).

IEX also does not believe that the proposed changes raise any new or novel material issues that have not already been considered by the Commission because it would substantially conform IEX's treatment of odd lot orders to the manner in which such orders are treated by other equities exchanges, as discussed in the Purpose and Statutory Basis sections. Specifically, the manner in which IEX proposes to allow odd lot orders to be displayed and aggregated to form a protected quote is substantially similar to the functionality of the other equities exchanges.<sup>67</sup> Similarly, IEX's proposed approach to prevent a displayed odd lot order from locking or crossing a non-displayed contra-side order that has a specific condition that prevent the orders from matching is consistent with Nasdaq and NYSE rules,<sup>68</sup> and also similar to the rules of the Cboe BZX, MEMX, and MIAX Pearl exchanges.<sup>69</sup> Finally, the manner in which IEX will match one or more displayed odd lot orders that become executable against a contra-side displayed order as a result of a re-pricing triggered by market changes is consistent with the approaches taken by several other exchanges that match resting orders that re-price to a point of marketability.<sup>70</sup> Accordingly, the Exchange does not believe that the proposed approaches raise any new or novel issues not previously considered by the Commission.

Accordingly, the Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>71</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>72</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

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<sup>67</sup> See supra notes 26 and 27.

<sup>68</sup> See supra notes 47 and 48.

<sup>69</sup> See supra note 49.

<sup>70</sup> See supra notes 55 and 56.

<sup>71</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>72</sup> 17 CFR 240.19b-4.

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>73</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-2021-01 on the subject line.

##### Paper Comments:

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

All submissions should refer to File Number SR-IEX-2021-01. 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

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<sup>73</sup> 15 U.S.C. 78s(b)(2)(B).

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, on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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-2021-01 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>74</sup>

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<sup>74</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.

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Rule 11.190. Orders and Modifiers

(a) No change.

(b) Order Parameters.

(1) Displayed Order. An order with its full quantity displayed. Limit orders, other than those marked IOC or FOK, may have their unexecuted portions posted on the Order Book. All such orders are considered fully displayed by the System, except those orders marked otherwise by Users, or prohibited from being displayed by the Rules. Displayed orders and displayed portions of orders may be referred to as “quotations” of the Exchange. All Exchange quotations are firm, which means they are automatically executable for their displayed size in the System. All Exchange quotations compete for priority as displayed orders pursuant to IEX Rule 11.220. A displayed order:

(A)-(G) No change.

(H) May be an odd lot, round lot, or mixed lot.[Must be at least one round lot. If an order marked for display is submitted with, or decremented either by execution or the User order amendment to an order quantity of less than one round lot, it will be treated as an odd lot order which is by definition, non-displayed and will receive a new time stamp, pursuant to IEX Rule 11.220(a)(3).]

(I) No change.

(2) Reserve Order. An order with a portion of the quantity displayed (“display quantity”) and with a non-displayed reserve portion of the quantity (“reserve quantity”). The User instructed display quantity must be equal to or greater than a round lot; the System will reject a reserve order with a User instructed display quantity less than a round lot. An incoming reserve order is first processed as a single order of its full, unexecuted share size as it checks the Order Book for eligible resting contra interest. If it is not fully executed, it will be posted to the Order Book and effectively be treated as two discrete orders: one displayed for the User instructed quantity (“displayed portion”), and one non-displayed for all other remaining, unexecuted shares (“non-displayed portion”). For the purposes of pricing reserve orders on the Order Book, displayed portions are treated

as displayed orders and non-displayed portions are treated as non-displayed orders. As described in IEX Rule 11.190(h), it is possible for the non-displayed portion to rest at a different price than the displayed portion, since the non-displayed portion is subject to the Midpoint Price Constraint while the displayed portion is subject to display-price sliding. If the displayed portion of the reserve order is decremented such that less than one round lot would be displayed, the displayed portion of the reserve order shall be refreshed for either (i) the original displayed quantity, or (ii) the entire reserve quantity, if the total number of unexecuted shares in the order is smaller than the original User instructed displayed quantity. Each time the displayed portion of the order is refreshed from the reserve quantity, that portion is prioritized behind other existing displayed orders; the priority of the non-displayed portion, however, is unchanged by the refresh process. A reserve order:

- (A)–(G) No change.
  - (H) [Must be at least one round lot. ]If an order marked for display is [submitted with, or] decremented either by execution or the User order amendment to an order quantity of less than one round lot, it will be treated as a[n] displayed odd lot order and will retain its priority.[ which is by definition non-displayed and will receive a new time stamp, pursuant to IEX Rule 11.220(a)(3)].
  - (I) No change.
- (3) No change.
  - (4) **Odd Lot Order.** An order to buy or sell an odd lot as defined by Rule 11.180. Odd lot orders marked for display are only eligible to be Protected Quotations if aggregated to form at least a round lot.[Odd lot orders are non-displayed orders. Orders that upon entry are less than one round lot are determined to be non-displayed orders. Displayed orders which are decremented by execution or User order amendment to less than one round lot will be treated by the System as non-displayed orders.]
  - (5) **Mixed Lot Order.** An order to buy or sell a mixed lot as defined by Rule 11.180. Odd lot portions of mixed lot orders marked for display are only eligible to be Protected Quotations if aggregated to form a round lot.[ Displayed orders that are decremented by execution or User order amendment to less than one round lot will be converted by the System to non-displayed orders.]
  - (6) No change.
  - (7) **Discretionary Limit Order.** A displayed or nondisplayed Limit order that upon entry and when posting to the Order Book, is priced to be equal to and ranked at the order's limit price, except under the following circumstances:
    - (a)–(d) No change.

- (e) Once the price of a Discretionary Limit order that has been posted to the Order Book is automatically adjusted by the System, the order will continue to be ranked and displayed (in the case of a displayed order) at the adjusted price, unless subject to another automatic adjustment pursuant to subparagraphs (C) – (D) above. When the price of a Discretionary Limit order is adjusted, the order will receive a new time priority. If multiple Discretionary Limit orders are adjusted at the same time, their relative time priority will be maintained. A Discretionary Limit order:
- (A)-(F) No change.
- (G) May be an odd lot, round lot, or mixed lot. [However, a D-Limit order marked for display will not be displayed unless it is at least one round lot. If a D-Limit order marked for display is submitted with, or decremented either by execution or the User order amendment to an order quantity of less than one round lot, it will be treated as an odd lot order which is by definition, non-displayed and will receive a new time stamp, pursuant to IEX Rule 11.220(a)(3).]
- (H)-(J) No change.
- (8)-(9) No change.
- (10) Discretionary Peg Order. A pegged order that upon entry into the System, the price of the order is automatically adjusted by the System to be equal to the less aggressive of the Midpoint Price or the order's limit price, if any. When unexecuted shares of such order are posted to the Order Book, the price of the order is automatically adjusted by the System to be equal to and ranked at the less aggressive of one (1) MPV less aggressive than the primary quote (i.e., the NBB for buy orders and NBO for sell orders) or the order's limit price and is automatically adjusted by the System in response to changes in the NBB (NBO) for buy (sell) orders up (down) to the order's limit price, if any. In order to meet the limit price of active orders on the Order Book, a Discretionary Peg order will exercise the least amount of price discretion necessary from the Discretionary Peg order's resting price to its discretionary price (defined as the less aggressive of the Midpoint Price or the Discretionary Peg order's limit price, if any, or as set forth in IEX Rule 11.190(h)(2)(B)), except during periods of quote instability as defined in paragraph (g) below when a Discretionary Peg order is only eligible to trade at its resting price. When exercising price discretion, a Discretionary Peg order maintains time priority at its resting price and is prioritized behind any non-

displayed interest at the discretionary price for the duration of that book processing action. If multiple Discretionary Peg orders are exercising price discretion during the same book processing action, they maintain their relative time priority at the discretionary price. A Discretionary Peg order:

(A)-(K) No change.

(11)-(15) No change.

(16) Corporate Discretionary Peg Order. A Discretionary Peg buy order that upon entry into the System, the price of the order is automatically adjusted by the System to be equal to the less aggressive of the Midpoint Price, the consolidated last sale price, or the order's limit price, if any. When unexecuted shares of such order are posted to the Order Book, the price of the order is automatically adjusted by the System to be equal to and ranked at the less aggressive of one (1) MPV less than the NBB, the consolidated last sale price, or the order's limit price and is automatically adjusted by the System in response to changes in the NBB and consolidated last sale price up to the order's limit price, if any (the order's "resting price"). In order to meet the limit price of active orders on the Order Book, a Corporate Discretionary Peg order will exercise the least amount of price discretion necessary from the order's resting price to its discretionary price (defined as the less aggressive of the Midpoint Price, consolidated last sale price, or the order's limit price, if any, or as set forth in IEX Rule 11.190(h)(2)(B)), except during periods of quote instability as defined in paragraph (g) below when a Corporate Discretionary Peg order is only eligible to trade at its resting price. When exercising price discretion, a Corporate Discretionary Peg order maintains time priority at its resting price and is prioritized behind any non-displayed interest at the discretionary price for the duration of that book processing action. If multiple Corporate Discretionary Peg orders are exercising price discretion during the same book processing action, they maintain their relative time priority at the discretionary price. A Corporate Discretionary Peg order:

(A)-(K) No change.

(c)-(g) No change.

(h) Price Sliding. The System will process orders pursuant to the "price sliding process," which includes the following:

(1) Display-Price Sliding.

(A)-(C) No change.

- (2) Non-Displayed Price Sliding (“Midpoint Price Constraint”). A non-displayed limit order posting to the Order Book which has a limit price more aggressive than the Midpoint Price is booked and ranked on the Order Book non-displayed at a price equal to the Midpoint Price. To reflect changes to the NBBO, the order is automatically re-priced by the System in response to changes in the NBBO to be equal to the less aggressive of the order’s limit price or the Midpoint Price. Notwithstanding the foregoing, if a contra-side displayed odd lot order is booked and ranked on the Order Book at a price equal to or more aggressive than the Midpoint Price:
- (A) Any incoming non-displayed order or non-displayed order resting on the Order Book (except for Discretionary Peg or Corporate Discretionary Peg orders) that would otherwise be executable against the contra-side displayed odd lot order, but for the non-displayed order’s specific conditions, will be booked and ranked by the System at one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.
  - (B) Any resting Discretionary Peg or Corporate Discretionary Peg order that would otherwise be executable against the contra-side displayed odd lot order, but for the Discretionary Peg or Corporate Discretionary Peg order’s specific conditions, will be booked and ranked by the System in the manner set forth in Rule 11.190(b)(10) or Rule 11.190(b)(16), respectively, but the discretionary price of the order will be the less aggressive of the limit price, if any, or one (1) MPV less aggressive than the price of the contra-side displayed odd lot order.
- (3)-(5) No change.

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#### Rule 11.220. Priority of Orders

(a) Determination of Rank

- (1) Orders resting in the Order Book shall be ranked and maintained based on the following priority:

(A)-(B) No change.

(C) Time. The System shall rank equally priced trading interest with the same display within the System in time priority. Subject to the Execution Process described below, where orders to buy (or sell) are resting at the same price with the same display, the order clearly established as the oldest in the System at such particular price and display shall have precedence at that price and display, up to the

number of shares of stock specified in the order. Orders are ranked by the time at which they are posted to the Order Book at a given price, the first to be posted at a given price being the oldest. Orders maintain their time priority once booked until one of the following occur, at which time the order will receive a new timestamp:

(i) – (vi) No change.

[(vii) When a Displayed order is reduced to less than one round lot, it receives a new timestamp and is considered a non-displayed order.]

(vii)[(viii)] Pursuant to IEX Rule 11.190(b)(10), when exercising price discretion, Discretionary Peg orders maintain time priority at their resting price, however they are prioritized behind any non-displayed interest at the discretionary price for the duration of that book processing action.

(2) No change.

(3) Decrementing Order Quantity and Priority. In the event that less than the full size of an order is executed, the unexecuted size of the order shall retain priority at the same resting price in accordance with paragraph (1) above[, except when the order is displayed and the remaining unexecuted shares have been reduced from a round lot or mixed lot to an odd lot in accordance with paragraph (1)(C)(vii)]. In the event that an order is decremented by the User by means of a Cancel/Replace pursuant to IEX Rule 11.190(d) the order will not receive a new timestamp except for [Displayed orders or displayed portions of orders that are decremented from round lot or mixed lot to an odd lot in accordance with paragraph (1)(C)(vii) and] routable orders queued for the Opening Process in accordance with paragraph (2)(A)(ii).

(4)-(8) No change.

(b) Dissemination. The best-ranked displayable order(s) are disseminated pursuant to IEX Rule 11.240(c)(1).

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#### Rule 11.230. Order Execution

Subject to the restrictions under these Exchange Rules or the Act and the rules and regulations

thereunder, orders shall be matched for execution in accordance with this IEX Rule 11.230.

- (a) Execution Against the IEX Order Book. For purposes of this IEX Rule 11.230 any order falling within the parameters of this paragraph shall be referred to as “executable.” An order will be canceled back to the User if, based on market conditions, User instructions, applicable IEX Rules and/or the Act and the rules and regulations thereunder, such order is not executable, cannot be routed to an away trading center pursuant to IEX Rule 11.230(b)(2) below and cannot be posted to the Order Book.

(1)-(3) No change.

- (4) Execution against the IEX Order Book. An incoming non-routable order will attempt to be matched for execution against orders in the Order Book, as described below.

(A)-(D) No change.

(E) In the case of a displayed order previously subject to price sliding as defined in Rule 11.190(h), upon a change to the Order Book or the NBBO that would result in the displayed order re-pricing to a more aggressive price that would lock or cross a resting unprotected displayed odd lot order, the re-pricing order and the displayed odd lot order will execute according to the priority of each order, and the remover of liquidity will be the order with the newest timestamp.

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#### Rule 11.240. Trade Execution, Reporting, and Dissemination of Quotations

(a)-(b) No change.

- (c) Display of Automated Quotations. The System will be operated as an “automated market center” within the meaning of Regulation NMS, and in furtherance thereof, will display “automated quotations” within the meaning of Regulation NMS at all times except in the event that a systems malfunction renders the System incapable of displaying automated quotations.

- (1) Dissemination of Quotation Information. The aggregate of the best-ranked order(s)[, pursuant to IEX Rule 11.220,] to buy and the best-ranked order(s) to sell, pursuant to IEX Rule 11.220, that are displayable in the Order Book shall be collected and made available to quotation vendors for dissemination pursuant to the requirements of Rule 602 of Regulation NMS.[ The Exchange will maintain connectivity and access, pursuant to IEX Rule 11.510, to the Consolidated Tape Association (“CTA”) Plan and Unlisted Trading Privileges (“UTP”) Plan (collectively, “the SIPs”) for dissemination of quotation information.]

(2) Pursuant to Rule 602 of Regulation NMS, the Exchange will transmit for display to the appropriate securities information processor for each security:

(A) the highest price to buy wherein the aggregate size of all displayed buy interest in the System greater than or equal to that price is one round lot or greater;

(B) the aggregate size of all displayed buy interest in the System greater than or equal to the price in subparagraph (A), rounded down to the nearest round lot;

(C) the lowest price to sell wherein the aggregate size of all displayed sell interest in the System less than or equal to that price is one round lot or greater; and

(D) the aggregate size of all displayed sell interest in the System less than or equal to the price in subparagraph (C) above, rounded down to the nearest round lot.

(d) No change.

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