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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2014 - * 049
Amendment No. (req. for Amendments *)

Filing by NASDAQ OMX BX, Inc.

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) * ☐

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

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

Relating to Directed Market Makers

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 * Angela Last Name * Dunn

Title * Associate General Counsel

E-mail * angela.dunn@nasdaqomx.com

Telephone * (215) 496-5692 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.

Date 10/14/2014

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

Persona Not Validated - 1383935917270,

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.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	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 * Add Remove View	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 * Add Remove View	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 Add Remove View 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 Add Remove View 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 Add Remove View	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 Add Remove View	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 Add Remove View	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 the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] NASDAQ OMX BX, Inc. ("BX" or the "Exchange") is filing with the Securities and Exchange Commission ("Commission") a proposal to add definitions of Directed Order and Directed Market Maker ("DMM"), as well as provisions concerning the designation of an order as a Directed Order and DMM market making obligations. The proposal also revises priority rules to provide for a DMM participation entitlement. Finally, the rule makes certain clarifications to the text of rules governing Lead Market Makers ("LMMs"). The proposal seeks to enable BX to compete with the many options exchanges that offer directed orders in their respective markets.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The BX Board of Directors of the Exchange approved the submission of this proposed rule change on January 9, 2013. No other action by the Exchange is necessary for the filing of the rule change.

Questions regarding this rule filing may be directed to Angela Saccomandi Dunn,

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

2 17 CFR 240.19b-4.

Associate General Counsel, The NASDAQ OMX Group at (215) 496-5208.

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

a. Purpose

The purpose of the proposed rule change is to adopt rules to permit BX Market Makers to act as Designated Market Makers, or DMMs, in their assigned options classes, provided the DMM meets certain obligations and quoting requirements as provided for in the new proposed Exchange Rules. The Exchange proposes to provide DMMs with certain participation entitlements. The Exchange believes that these amendments, described below in greater detail, will enhance competition by affording the BX Options market the opportunity to compete for directed order flow.

Current Categories of BX Options Participants

Today on BX there are three types of Options Participants: Options Order Entry Firms, Options market makers and LMMs. Options Order Entry Firms, or OEFs, are Options Participants who represent customer orders as agent on BX Options and non-market maker Participants conducting proprietary trading as principal.

Options market makers are Options Participants registered with the Exchange as options market makers in one or more listed options on BX.[3] BX Options market makers are required to electronically engage in a course of dealing to enhance liquidity available on BX and to assist in the maintenance of fair and orderly markets.[4] Among other things,

3 See BX Options Rules at Chapter VII.

4 Options market makers receive certain benefits for carrying out their duties. For example, a lender may extend credit to a broker-dealer without regard to the restrictions in Regulation T of the Board of Governors of the Federal Reserve

Options market makers must quote 60 percent of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as BX may announce in advance.[5]

Recently, the Exchange adopted rules providing that an approved BX Options market maker may become an LMM in one or more listed options, provided that each class is limited to one LMM.[6] BX does not limit the number of entities that may become LMMs. LMMs are subject to more extensive obligations than other BX Options market makers, including an obligation to provide continuous two-sided quotations meeting certain quote width requirements throughout the trading day in its appointed issues for 90

System if the credit is to be used to finance the broker-dealer's activities as market maker on a national securities exchange. Thus, an Options market maker has a corresponding obligation to hold itself out as willing to buy and sell options for its own account on a regular or continuous basis to justify this favorable treatment.

5 BX Regulation may consider exceptions to the requirement to quote 60 percent (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. Market makers are not required to make two-sided markets pursuant to Section 5(a)(i) of Chapter VII in any Quarterly Option Series, adjusted option series, or any option series until the time to expiration for such series is less than nine months. Accordingly, the continuous quotation obligations set forth in this rule do not apply to market makers respecting Quarterly Option Series, adjusted option series, or any series with an expiration of nine months or greater. If a technical failure or limitation of a system of BX prevents a market maker from maintaining, or prevents a market maker from communicating to BX Options, timely and accurate quotes, the duration of such failure or limitation shall not be included in any of these calculations with respect to the affected quotes. Substantial or continued failure by an Options market maker to meet any of its obligations and duties, will subject the Options market maker to disciplinary action, suspension, or revocation of the Options market maker's registration in one or more options series. See obligations of Options market makers in Chapter VII, Section 6.

6 See Chapter VII, Section 13.

percent of the time the Exchange is open for trading in each issue.[7] The Exchange provides LMMs with specific participation entitlements in Chapter VI (Trading Systems) at Section 10, entitled "Book Processing."

DMM Designation and Directed Orders

The Exchange is now proposing to define Directed Orders and to provide for another category of market maker, the DMM. A "Directed Order" would be defined as an order to buy or sell which has been directed (pursuant to the Exchange's instructions on how to direct an order) to a particular market maker (the DMM with respect to that Directed Order).[8] Pursuant to a proposed amendment to Chapter VI, Section 6(a)(2), Limit Orders,[9] Minimum Quantity Orders,[10] Market Orders,[11] Price Improving Orders,[12]

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7 See Chapter VII, Section 14.

8 See proposed Chapter VI, Section 1(e)(1), which replaces a Reserved section with a definition of Directed Order. The new provision also states that Directed Orders are handled within the System pursuant to Chapter VI, Section 10.

9 See Chapter VI, Section 1(e)(2). "Limit Orders" are orders to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

10 See Chapter VI, Section 1(e)(3). "Minimum Quantity Orders" are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel. Minimum Quantity Orders received prior to the opening cross or after market close will be rejected.

11 See Chapter VI, Section 1(e)(5). "Market Orders" are orders to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant.

12 See Chapter VI, Section 1(a)(6). "Price Improving Orders" are orders to buy or

All-or-None Orders[13] and Post-Only Orders[14] may all be designated as Directed Orders. A Directed Order may also be designated as Immediate or Cancel ("IOC"),[15] Good-till-

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sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders.

13 See Chapter VI, Section 1(e)(10). "All-or-none" shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-None Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-None Orders received prior to the opening cross or after market close will be rejected.

14 See Chapter VI, Section 1(e)(11). "Post-Only Orders" are orders that will not remove liquidity from the System. Post-Only Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market. Post-Only Orders are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if a Post-Only Order would lock or cross an order on the System, the order will be re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers); and (ii) if a Post-Only Order would not lock or cross an order on the System but would lock or cross the NBBO as reflected in the protected quotation of another market center, the order will be handled pursuant to Chapter VI, Section 7(b)(3)(C). Participants may choose to have their Post-Only Orders returned whenever the order would lock or cross the NBBO or be placed on the book at a price other than its limit price. Post-Only Orders received prior to the opening cross or after market close will be rejected. Post-Only Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel. Although a Post-Only Order may be designated as a Directed Order, because it is not executed immediately upon receipt it will never result in the awarding of a DMM participation entitlement as discussed below.

15 See Chapter VI, Section 1(g)(2). "Immediate Or Cancel" or "IOC" shall mean for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time will be held within the

Cancelled ("GTC"),[16] Day ("DAY")[17] or a WAIT[18] order pursuant to Chapter VI, Section 6(a)(1) as proposed to be amended. New Section 15, DMMs, of Chapter VII, Market Participants, provides that market makers may receive Directed Orders in their appointed classes as provided therein, provided they indicated to the Exchange, in a form specified, that they will receive Directed Orders.

Pursuant to new Chapter VII, Market Participants, Section 15, when the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the DMM is quoting at or improving the Exchange's disseminated price, the Directed Order will be automatically executed and allocated in accordance with Chapter VI, Section 10 such that the DMM will receive a DMM participation entitlement provided for

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System until 9:30 a.m. at which time the System shall determine whether such orders are marketable. IOC orders can be routed if designated as routable.

16 See Chapter VI, Section 1(g)(4). "Good Til Cancelled" or "GTC" shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

17 See Chapter VI, Section 1(g)(3). "DAY" shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

18 See Chapter VI, Section 1(g)(5). "WAIT" shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering party.

in Chapter VI, Section 10, discussed below.[19] If the DMM participation entitlement is not awarded at the time of receipt of the Directed Order, no DMM participation entitlement will apply and the order will be handled as though it were not a Directed Order for the remainder of the life of the order. However, when (a) the Exchange's disseminated price is the NBBO, and the quotation disseminated by the DMM on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, or (b) the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order will be processed as though it were not a Directed Order.[20]

New Section 15 requires a DMM to provide continuous two-sided quotations throughout the trading day in all options issues in which the DMM is assigned for 90 percent of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements of Chapter VII, Section 6. These obligations will apply collectively to all series in all of the issues, rather than on an issue-by-issue basis once the market maker has indicated to the Exchange that the market maker will be receiving Directed Orders. While the Market Maker’s quoting requirement is a daily obligation, the Exchange is able to determine compliance with these obligations on a monthly basis. BX Regulation may consider exceptions to the requirement to quote 90%

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[19] Chapter VII, Market Participants, Section 15, Directed Market Makers, subsection (i) Price Improving Orders from a DMM participant which are reflected on OPRA at the NBBO retain price priority and are eligible for a DMM participation entitlement.

[20] See Chapter VII, Market Participants, Section 15, Directed Market Makers, subsection (ii).

(or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.[21] If a technical failure or limitation of a system of the Exchange prevents a DMM from maintaining, or prevents a DMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the DMM has satisfied the 90 percent quoting standard with respect to that option issue. Further, these obligations shall not apply to DMMs with respect to Quarterly Options Series, adjusted option series,[22] or any series with a time to expiration of nine months or greater. However, a DMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Chapter VI, Section 10.

LMM and New DMM Participation Entitlements

By way of background, Chapter VI, Trading System, Section 10, Book Processing, currently provides that the Exchange will determine to apply, for each option, either a Price/Time or a Size Pro-Rata execution algorithm. In addition to describing each execution algorithm, Chapter VI, Section 10 also describes certain priority overlays applicable to each of those algorithms.

Currently, under both Price/Time and Size Pro-Rata algorithms, Public Customer Priority is always in effect and provides that the highest bid and lowest offer have priority except that Public Customer orders have priority over non-Public Customer orders at the

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21 Chapter VII, Market Participants, Section 15, Directed Market Makers, subsection (iii).

22 An adjusted option series is an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying security.

same price. If there are two or more Public Customer orders for the same options series at the same price, priority is afforded to such Public Customers orders in the sequence in which they are received by the System. For purposes of the Public Customer Priority overlay, a Public Customer order does not include a Professional[23] order.

Chapter VI, Section 10 also currently provides for a LMM priority overlay after all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at the Exchange's disseminated price. The LMM priority overlay applies under both the Price/Time and the Size Pro-Rata execution algorithms.

Specifically, with respect to Size Pro-Rata executions, the Exchange affords an LMM a participation entitlement if the LMM's bid/offer is at or better than the Exchange's disseminated price and all Public Customer[24] orders have been fully executed.[25] The LMM is not entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements are considered after the opening process. The LMM participation entitlement provides a BX Options LMM with the greater of: the LMM's Size Pro-Rata share; 50 percent of

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23 See Chapter I, Section 1(a)(49). The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.

24 See Chapter I, Section 1(50). The term "Public Customer" means a person that is not a broker or dealer in securities.

25 Price Improving Orders retain price priority before an LMM participation entitlement is provided at the Exchange's disseminated price. See Chapter VI, Sections 1(a)(6) and 7(b)(3)(B).

remaining interest if there is one or no other market maker at that price; 40 percent of remaining interest if there are two other market makers at that price; or 30 percent of remaining interest if there are more than two other market makers at that price; or if rounding would result in an allocation of less than one contract, a BX Options LMM receives one contract. Rounding is up or down to the nearest integer.[26] After all Public Customer orders have been fully executed and LMM participation entitlements applied, if applicable, BX Options market makers then have priority over all other Participant orders at the same price.[27]

For symbols trading under the Price/Time algorithm, LMM participant entitlements may be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or better than the Exchange's disseminated price, the LMM is afforded a participation entitlement.[28] The LMM is not entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. A BX Options LMM receives the greater of: (a) contracts the LMM would receive if the allocation was based on time priority with Public Customer priority; (b) 50 percent of remaining interest if there is one or no other market maker at that price; (c) 40

26 When the decimal is exactly 0.5, the rounding direction is up to the nearest integer.

27 Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(2)(ii)(1).

28 As is the case with Size Pro-Rata executions discussed above, Price Improving Orders retain price priority before an LMM participation entitlement is provided at the Exchange's disseminated price. See Chapter VI, Sections 1(a)(6) and 7(b)(3)(B).

percent of remaining interest if there are two other market makers at that price; or (d) 30 percent of remaining interest if there are more than two other market makers at that price or if rounding would result in an allocation of less than one contract, a BX Options LMM receives one contract. Rounding is up or down to the nearest integer.[29]

Under both the Price/Time algorithm and the Size Pro-Rata algorithm, Orders for 5 contracts or fewer are allocated to the LMM. The Exchange reviews this provision quarterly and maintains the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40 percent of the volume executed on the Exchange.[30]

The Exchange is now proposing to amend its rules to provide for a DMM priority entitlement under both the Price/Time and the Size Pro-Rata algorithm, and to make certain corresponding changes and clarifications to the current LMM participation entitlements. Under both Price/Time and Size Pro-Rata algorithms, a market maker which receives a Directed Order is a DMM with respect to that Directed Order. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves the NBBO, the DMM will be afforded a participation entitlement.[31] The DMM shall not be entitled to receive a number of

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[29] Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(1)(b)(1).

[30] Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(b)(2) and (C)(2)(ii)(2).

[31] As with the LMM participation entitlements discussed above, Price Improving Orders retain price priority before an DMM participation entitlement is provided at the Exchange's disseminated price. See Chapter VI, Sections 1(a)(6) and 7(b)(3)(B).

contracts that is greater than the displayed size associated with such DMM. DMM participation entitlements will be considered after the opening process. Chapter VI, Section 10(C)(1)(c) specifies that under the Price/Time execution algorithm, DMM participant entitlements (like LMM participation entitlements)[32] shall only be in effect when the Public Customer Priority Overlay is also in effect.

Pursuant to the DMM participation entitlement in effect under the Price/Time algorithm, the DMM would receive, with respect to a Directed Order, the greater of: (1) contracts the DMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) with Public Customer priority; (2) 40 percent of remaining interest; or (3) the LMM participation entitlement (if the DMM is also the LMM). If there are multiple DMM quotes at the same price which are at or improve the NBBO when the Directed Order is received, the DMM participation entitlement would apply only to the one which has the highest time priority. If rounding would result in an allocation of less than one contract, the DMM would receive one contract. Rounding would be up or down to the nearest integer.[33]

Pursuant to the DMM participation entitlement in effect under the Size Pro-Rata algorithm, the DMM would receive, with respect to a Directed Order, the greater of: (1) the DMM's Size Pro-Rata share under subsection(1)(C)(2)(iv); (2) 40 percent of remaining interest; or (3) the LMM participation entitlement (if the DMM is also the LMM). If there are multiple DMM quotes at the same price which are at or improves the

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32 Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(1)(b).

33 Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(c).

NBBO when the Directed Order is received, the DMM participation entitlement would apply only to the one which has the highest time priority. Like the DMM participation entitlement applicable to executions under the Price/Time algorithm, if rounding would result in an allocation of less than one contract, the DMM would receive one contract, and rounding would be up or down to the nearest integer.[34]

As noted above, under both execution algorithms only one participation entitlement, LMM or DMM, may be applied on a given order. The Exchange is amending the current LMM entitlements under each algorithm to provide with respect to a Directed Order that if the LMM is also the DMM, the LMM shall receive the DMM participation entitlement applicable to that algorithm, if any, if such DMM participation entitlement is greater than the LMM participation entitlement the LMM would otherwise receive pursuant to Chapter VI, Section 10, subsections (C)(1)(b)(1)(a)-(d) (in the case of Price/Time symbols) or (C)(2)(ii)(1)(a)-(d) (in the case of Size Pro-Rata symbols). The Exchange is also modifying the LMM priority rules so that the LMM participation entitlement will not apply to a Directed Order if when it is received the DMM's bid/offer is at or improves the NBBO and the LMM is at the same price level and the LMM is not the DMM.[35]

The Exchange is also proposing to revise the current allocation to the LMM of orders for five contracts or fewer (which applies under both algorithms). As revised, the

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34 Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(2)(iii).

35 Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(b)(1) (with respect to Price/Time symbols) and (C)(2)(ii)(1) (with respect to Size Pro-Rata Symbols).

provision would not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at the NBBO.[36]

Currently, with respect to executions under the Size Pro-Rata algorithm, BX Options market makers have priority over all other Participant orders at the same price after all Public Customer orders have been fully executed and LMM participation entitlements applied. The Exchange proposes to amend this provision so that this BX Options market maker priority applies only after any DMM participation entitlements have been applied as well.[37]

Finally, the Exchange proposes to clarify with respect to LMMs under both execution algorithms that after all Public Customer orders have been fully executed, upon receipt of an order, the LMM will be afforded a participation entitlement provided that LMM's bid/offer is at *or improves upon* the Exchange's disseminated price. The addition of the reference to an improved bid/offer will conform the LMM provision to the corresponding new DMM provision. The Exchange is also making a clarifying change in Chapter VI, Section 10(1)(C)(1)(b)(1)(a) by changing "subparagraph (1)(a) above" to "subparagraph (C)(1)(a) above"

Examples of DMM Participation Entitlement under Price/Time Algorithm

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36 Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(b)(2) (with respect to Price/Time symbols) and (C)(2)(ii)(2) (with respect to Size Pro-Rata Symbols).

37 Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(2)(iv).

Examples 1 through 3 below illustrate the manner in which a DMM will be allocated pursuant to the Price/Time model.

Example Number 1:

Assume an LMM has been assigned and that the DMM is **not** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt

Market Maker 1 (“MM1”) 1.00 (10) – 1.10 (10)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
DMM 1.00 (10) – 1.10 (20)
LMM 1.00 (10) – 1.10 (10)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Price/Time with Customer Priority would result in Customer A trading 5, Customer B trading 2, MM1 trading 10, Firm trading 5, and DMM trading 18.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal price/ time would resume and MM1 would trade 10, Firm would trade 5, and LMM would trade 5.

The LMM allocation is not calculated.

In this example, Price/Time with Customer Priority would prevail since the DMM would receive a greater allocation this way.

Example Number 2:

Assume an LMM is assigned and that the DMM is **not** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt

MM1 1.00 (10) – 1.10 (10)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
Market Maker 2 (“MM2”) 1.00 (10) – 1.10 (10)

DMM 1.00 (10) – 1.10 (20)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Price/Time with Customer Priority would result in Customer A trading 5, Customer B trading 2, MM1 trading 10, Firm trading 5, MM2 trading 10 and DMM trading 8.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal price/time would resume with MM1 trading 10, Firm trading 5 and MM2 trading 5.

The LMM allocation would not be calculated.

In this example, the DMM allocation would prevail since the DMM receives a greater allocation this way.

Example Number 3:

Assume an LMM is assigned and that the DMM is **also** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

MM1 1.00 (10) – 1.10 (10)
Firm 25 offered at 1.10
DMM/LMM 1.00 (10) – 1.10 (20)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Price/Time with Customer Priority would result in Customer B trading 2, MM1 trading 10, Firm trading 25, and DMM/LMM trading 3.

DMM allocation would result in Customer B trading 2 and DMM/LMM trading 40% of remaining 38 = 15 (15.2 rounded down); then normal price/time would resume and MM1 would trade 10 and Firm would trade 13.

LMM allocation would result in Customer B trading 2 and DMM/LMM trading 50% of remaining 38 = 19; then normal price time would resume and MM1 would trade 10 and Firm would trade 9.

In this example, the LMM allocation would prevail since the DMM/LMM would receive a greater allocation this way.

Examples of DMM Participation Entitlement under Size Pro-Rata Algorithm

Examples 4 through 6 below illustrate the manner in which a DMM will be allocated pursuant to the Size Pro-Rata model.

Example Number 4:

Assume an LMM is assigned and the DMM is **not** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

LMM 1.00 (10) – 1.10 (15)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
DMM 1.00 (10) – 1.10 (20)
MM1 1.00 (10) – 1.10 (10)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Size Pro-Rata would result in Customer A trading 5, Customer B trading 2, LMM trading 11 (15/45*33remaining), DMM trading 14 (20/45*33), MM1 trading 7 (10/45*33), and then LMM based on time receiving the residual 1 lot.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal Size Pro-Rata for remaining with the LMM trading 12 (15/25*20) and MM1 trading 8 (10/25*20).

The LMM allocation would not be calculated.

In this example, the Size Pro-Rata allocation would prevail since the DMM would receive the greater allocation this way.

Example Number 5:

Assume that no LMM is assigned.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

DMM 1.00 (10) – 1.10 (15)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
MM1 1.00 (10) – 1.10 (20)
MM2 1.00 (10) – 1.10 (10)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Size Pro-Rata would result in Customer A trading 5, Customer B trading 2, DMM trading 11 (15/45*33remaining), MM1 trading 14 (20/45*33), MM2 trading 7 (10/45*33), and the DMM based on time receiving the residual 1 lot.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal Size Pro-Rata for remaining with MM1 trading 13 (20/30*20) and MM2 trading 6 (10/30*20), and the DMM based on time receiving the residual 1 lot.

The LMM allocation would not be calculated.

In this example, the DMM allocation would prevail since the DMM would receive the greater allocation this way.

Example Number 6:

Assume that an LMM is assigned and that the DMM is **also** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

DMM/LMM 1.00 (10) – 1.10 (15)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
MM1 1.00 (10) – 1.10 (30)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.
Determination of Allocation:

Size Pro-Rata would result in Customer A trading 5, Customer B trading 2, DMM/LMM trading 11 (15/45*33 remaining), MM1 trading 22 (30/45*33).

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM/LMM trading 40% of remaining 33 = 13 (13.2 rounded down); then Size Pro-Rata for remaining with MM1 trading full size of 20.

The LMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM/LMM entitled to 50% of remaining 33 = 17 (16.5 rounded up) but capped at his size of 15 thus trading 15; then normal Size Pro-Rata for remaining with MM1 trading 18.

In this example, the LMM allocation would prevail since the DMM is the LMM and would receive a greater allocation this way.

Priority Overlays

The Exchange is proposing to amend language in Chapter VI, Section 10(1)(C)(2) which applies to priority overlays. The language currently states that "the Exchange will apply the following designated Participant priority overlays, which are always in effect when the Size Pro-Rata execution algorithm is in effect." The priority overlays which are references are Public Customer, LMM, DMM and market maker priority. The Exchange is proposing to amend the sentence to state, "the Exchange *may* apply the following designated Participant priority overlays, when the Size Pro-Rata execution algorithm is in effect." The amendment is intended to provide more specificity to the rule text as Public Customer priority will be in effect always for Size Pro-Rata, but may be in effect for the other types of priorities. The amendment also conforms the language to the Price/Time rule text in Chapter VI, Section 10(1)(C)(1).

Implementation.

The Exchange desires to implement this rule change by rolling out the rule amendments on an option by option basis over a brief period of time. The Exchange would issue an Options Trader Alert in advance to inform market participants of the date of implementation of this proposal.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[38] in general, and furthers the objectives of Section 6(b)(5) of the Act[39] 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, 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, because it will establish a Directed Order process similar to what operates on other exchanges, as explained herein, which will provide Participants with additional choices among the many competing exchanges with regard to their execution needs and strategies. BX Options operates in an intensely competitive environment and seeks to offer the same services that its competitors offer and in which its customers find value.

In its approval of other options exchange directed order programs, the Commission has, like proposals to amend a specialist guarantee, focused on whether the percentage of the "entitlement" would rise to a level that could have a material adverse

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[38] 15 U.S.C. 78f(b).

[39] 15 U.S.C. 78f(b)(5).

impact on quote competition within a particular exchange, and concluded that such programs do not jeopardize market integrity or the incentive for market participants to post competitive quotes.[40] BX's proposed DMM participation entitlement of 40 percent is consistent with the directed order allocations of other options exchanges. BX notes that the remaining portion of each order will still be allocated based on the competitive bids/offers of market participants. In addition, at the time of receipt of the Directed Order, a DMM will have to be quoting at the NBBO which is intended to incent the DMM to quote aggressively. BX also notes that DMMs will have greater quoting obligations than other BX Options market makers.

With respect to a DMM's obligations, the Exchange would require DMMs be subject to heightened standards as compared to other market makers. A DMM must provide continuous two-sided quotations throughout the trading day in all options classes in which the DMM is assigned, once the market maker indicates to the Exchange an intent to receive Directed Orders, for 90% of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements herein. These obligations will apply to all of the DMM's option issues collectively, rather than on an option-by-option basis. While the Market Maker's quoting requirement is a daily obligation, the Exchange is able to determine compliance with these obligations on a monthly basis. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. However, determining compliance with the continuous

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[40] See Securities Exchange Act Release No. 51759 (May 27, 2005), 70 FR 32860 (June 6, 2005) (SR-Phlx-2004-91).

quoting requirement on a monthly basis does not relieve a DMM of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a DMM for failing to meet the continuous quoting obligation each trading day.

The Exchange believes that offering DMMs participation entitlements promotes just and equitable principles of trade because DMMs will be held to a higher standard as compared to other market participants including market makers. A market maker would be required, pursuant to this proposal, to quote 60% of the trading day. DMMs are being held to a higher obligation and therefore are being rewarded with participation entitlements. Similar to market makers, DMMs add value through continuous quoting[41] and the commitment of capital. In addition, the DMM quoting requirements promote liquidity and continuity in the marketplace in requiring DMMs to be held to a higher standard of quoting. The Exchange also believes that the proposed rule change supports the quality of the Exchange's markets because it maintains the quoting obligations of market makers as DMMs at 90%. DMM transactions must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. Accordingly, the proposed rule change supports the quality of the Exchange's trading markets by helping to ensure that DMMs will be required to meet a higher

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[41] Pursuant to Chapter VII (Market Participants), Section 5 (Obligations of Market Makers), in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a market maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and market makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. See Chapter VII, Section 5. Further, all market makers are designated as specialists on BX for all purposes under the Act or rules thereunder. See Chapter VII, Section 2.

quoting standard in order to reap the benefits of the participation entitlements. The Exchange believes this proposed change to offer participation entitlements to DMMs is offset by DMMs' continued responsibilities to provide significant liquidity to the market to the benefit of market participants.

The proposed rule change also removes impediments to and allows for a free and open market, while protecting investors, by promoting transparency regarding DMMs' obligations and benefits in the Exchange Rules. In addition, the Exchange believes that the proposed rule change is designed to not permit unfair discrimination among DMMs.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The competition among the options exchanges is vigorous and this proposal is intended to afford the BX Options market the opportunity to compete for directed order flow. In that regard, the proposal is pro-competitive and will offer market participants an additional venue for the execution of Directed Orders. The Exchange does not believe the proposal imposes a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because the ability to send Directed Orders is available to all Participants, and the ability to become a DMM is available to all market makers.

DMMs will be subject to enhanced quoting obligations and the obligations would apply to all options classes, once the market maker indicates to the Exchange an intent to receive Directed Orders, for 90% of the time the Exchange is open for trading in each issue collectively to all appointed issues, rather than on an option-by-option basis and compliance with this obligation will be determined on a monthly basis. Further, the proposal will not diminish, and in fact may increase, market making activity on the Exchange and thereby enhance intermarket competition. Moreover, the proposed rule change will not impose any burden on intra-market competition because it will affect all DMMs the same. DMMs will be subject to heightened quoting obligations as compared to other BX market makers. All market makers may become DMMs.

The Exchange does not believe the proposed rule change will cause any unnecessary burden on intra-market competition because it provides all market makers the opportunity to benefit from participation entitlements as a DMM. The Exchange believes that the proposed rule change will promote competition among market participants to the benefit of the Exchange, its Members, and market participants.

The Exchange does not believe the proposed change will cause any unnecessary burden on inter-market competition because all market makers are entitled to receive participation entitlements provided they direct orders and those orders are executed by those DMMs. In addition, the Exchange believes that the proposed rule change will in fact promote competition. The Exchange believes allowing DMMs to receive participation entitlements will promote trading activity on the Exchange because it will provide incentives to DMMs to quote in series which they are not obligated to do so, to the benefit of the Exchange, its Members, and market participants.

5. <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>

No written comments were either solicited or received.

6. <u>Extension of Time Period for Commission Action</u>

Not applicable.

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

Not applicable.

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

The proposed rule change is, in certain important respects, similar to NYSE MKT Rules 964NY and 964.1NY, NYSE Arca Rules 6.76A and 6.88 and Phlx Rules 1080(l)(ii) and 1014(g)(viii). Like those exchanges' directed order programs, the Exchange proposes to limit the DMM participation entitlement to situations where the DMM is at the NBBO at the time of receipt of the Directed Order, in order to encourage participants to quote competitively rather than to quote a wide market and wait for Directed Orders to arrive.[42] A DMM will not be entitled to receive a number of contracts that is greater than the size associated with their order or quote at a particular price level, in order to encourage the DMM to display as much liquidity as possible in order to trade more volume.[43] A DMM will be afforded a participation entitlement only after all Public Customer orders at that price have been fully executed.[44] The amount of the Directed Order allocation is limited to 40 percent of the size of the directed order.[45] Finally, a

42 See proposed BX Chapter VII, Section 15 (i) and (ii); NYSE MKT Rule 964.1NY(i); NYSE Arca Rule 6.88(i); and Phlx Rule 1080(l)(ii).

43 See proposed BX Chapter VI, Section 10(1)(C)(1)(c) and 10(1)(C)(2)(iii); NYSE MKT Rule 964NY(b)(2)(B)(ii) and NYSE Arca Rule 6.76A(a)(1)(A).

44 See proposed BX Chapter VI, Section 10(1)(C)(1)(c) and 10(1)(C)(2)(iii); NYSE MKT Rule 964NY(b)(2)(A) and (B); and Phlx Rule 1014(g)(viii)(A) and (B).

45 See proposed BX Chapter VI, Section 10(1)(C)(1)(c)(2) and 10(1)(C)(2)(iii)(2); NYSE MKT Rule 964NY(b)(2)(B)(ii); NYSE Arca Rule 6.76A(a)(1)(A); and Phlx Rule 1014(g)(iii)(B)(1)(c). Because the Exchange intends to round that allocation up to the nearest whole number, it is mathematically possible for its proposed DMM participation entitlement to exceed 40 percent in certain

DMM must provide continuous two-sided quotations meeting quote width requirements throughout the trading day in all options issues for which the DMM is assigned for 90 percent of the time the Exchange is open for trading in each issue, with these obligations being applied collectively to all series in all of the issues for which the DMM is assigned, rather than on an issue-by-issue basis.[46] BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. These rules are the same as the applicable Phlx Rules.[47] Further, these obligations shall not apply to DMMs with respect to Quarterly Options Series, adjusted option series, or any series with a time to expiration of nine months or greater. However, a DMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Chapter VI, Section 10. These rules are the same as the applicable Phlx Rules.[48]

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situations, but, of course, because it is rounding to the nearest whole number, rounding will necessarily never result in more than one additional options contract being added to the DMM participation entitlement. Even if such one additional contract caused the DMM participation entitlement to exceed 40 percent, BX believes that this is appropriate and reasonable because it is only one contract, regardless of the percentage. Generally, the larger the number of contracts being rounded, the smaller the percentage, with some mathematical variation. For example, an order of 9 contracts would round up from 3.6 to 4 contracts or 44.44 percent of the order, whereas an order for 91contracts would be rounded down for DMM participation entitlement purposes from 36.4 to 36 contracts or 39.56 percent of the order.

[46] See proposed BX Chapter VII, Section 15(iii); NYSE MKT Rule 964.1NY(iv); and NYSE Arca Rule 6.88(iv).

[47] See Phlx Rule 1014.

[48] See Phlx Rule 1014(ii)(D)(iv).

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

1. Notice of proposed rule for publication in the Federal Register.

5. Applicable portion of the rule text.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-BX-2014-049)

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing of Proposed Rule Change Relating to Directed Market Makers

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on October 14, 2014, NASDAQ OMX BX, Inc. ("BX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to add definitions of Directed Order and Directed Market Maker ("DMM"), as well as provisions concerning the designation of an order as a Directed Order and DMM market making obligations. The proposal also revises priority rules to provide for a DMM participation entitlement. Finally, the rule makes certain clarifications to the text of rules governing Lead Market Makers ("LMMs"). The proposal seeks to enable BX to compete with the many options exchanges that offer directed orders in their respective markets.

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

2 17 CFR 240.19b-4.

The text of the proposed rule change is available on the Exchange's Website at http://nasdaqomxbx.cchwallstreet.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to adopt rules to permit BX Market Makers to act as Designated Market Makers, or DMMs, in their assigned options classes, provided the DMM meets certain obligations and quoting requirements as provided for in the new proposed Exchange Rules. The Exchange proposes to provide DMMs with certain participation entitlements. The Exchange believes that these amendments, described below in greater detail, will enhance competition by affording the BX Options market the opportunity to compete for directed order flow.

Current Categories of BX Options Participants

Today on BX there are three types of Options Participants: Options Order Entry Firms, Options market makers and LMMs. Options Order Entry Firms, or OEFs, are

Options Participants who represent customer orders as agent on BX Options and non-market maker Participants conducting proprietary trading as principal.

Options market makers are Options Participants registered with the Exchange as options market makers in one or more listed options on BX.[3] BX Options market makers are required to electronically engage in a course of dealing to enhance liquidity available on BX and to assist in the maintenance of fair and orderly markets.[4] Among other things, Options market makers must quote 60 percent of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as BX may announce in advance.[5]

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3 See BX Options Rules at Chapter VII.

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

5 BX Regulation may consider exceptions to the requirement to quote 60 percent (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. Market makers are not required to make two-sided markets pursuant to Section 5(a)(i) of Chapter VII in any Quarterly Option Series, adjusted option series, or any option series until the time to expiration for such series is less than nine months. Accordingly, the continuous quotation obligations set forth in this rule do not apply to market makers respecting Quarterly Option Series, adjusted option series, or any series with an expiration of nine months or greater. If a technical failure or limitation of a system of BX prevents a market maker from maintaining, or prevents a market maker from communicating to BX Options, timely and accurate quotes, the duration of such failure or limitation shall not be included in any of these calculations with respect to the affected quotes. Substantial or continued failure by an Options market maker to meet any of its obligations and duties, will subject the Options market maker to disciplinary action, suspension, or revocation of the Options market maker's registration in one or more options series. See obligations of Options market makers in Chapter VII, Section 6.

Recently, the Exchange adopted rules providing that an approved BX Options market maker may become an LMM in one or more listed options, provided that each class is limited to one LMM.[6] BX does not limit the number of entities that may become LMMs. LMMs are subject to more extensive obligations than other BX Options market makers, including an obligation to provide continuous two-sided quotations meeting certain quote width requirements throughout the trading day in its appointed issues for 90 percent of the time the Exchange is open for trading in each issue.[7] The Exchange provides LMMs with specific participation entitlements in Chapter VI (Trading Systems) at Section 10, entitled "Book Processing."

DMM Designation and Directed Orders

The Exchange is now proposing to define Directed Orders and to provide for another category of market maker, the DMM. A "Directed Order" would be defined as an order to buy or sell which has been directed (pursuant to the Exchange's instructions on how to direct an order) to a particular market maker (the DMM with respect to that Directed Order).[8] Pursuant to a proposed amendment to Chapter VI, Section 6(a)(2), Limit Orders,[9] Minimum Quantity Orders,[10] Market Orders,[11] Price Improving Orders,[12]

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6 See Chapter VII, Section 13.

7 See Chapter VII, Section 14.

8 See proposed Chapter VI, Section 1(e)(1), which replaces a Reserved section with a definition of Directed Order. The new provision also states that Directed Orders are handled within the System pursuant to Chapter VI, Section 10.

9 See Chapter VI, Section 1(e)(2). "Limit Orders" are orders to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

All-or-None Orders[13] and Post-Only Orders[14] may all be designated as Directed Orders. A Directed Order may also be designated as Immediate or Cancel ("IOC"),[15] Good-till-

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10 See Chapter VI, Section 1(e)(3). "Minimum Quantity Orders" are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel. Minimum Quantity Orders received prior to the opening cross or after market close will be rejected.

11 See Chapter VI, Section 1(e)(5). "Market Orders" are orders to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant.

12 See Chapter VI, Section 1(a)(6). "Price Improving Orders" are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders.

13 See Chapter VI, Section 1(e)(10). "All-or-none" shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-None Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-None Orders received prior to the opening cross or after market close will be rejected.

14 See Chapter VI, Section 1(e)(11). "Post-Only Orders" are orders that will not remove liquidity from the System. Post-Only Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market. Post-Only Orders are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if a Post-Only Order would lock or cross an order on the System, the order will be re-priced to $.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers); and (ii) if a Post-Only Order would not lock or cross an order on the System but would lock or cross the NBBO as reflected in the protected quotation of another market center, the order will be handled pursuant to Chapter VI, Section 7(b)(3)(C). Participants may choose to have their Post-Only Orders returned whenever the order would lock or cross the NBBO or be placed on the book at a price other than its limit price. Post-Only Orders received prior to the opening cross or after market close will be rejected. Post-Only Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel. Although a Post-Only Order may be designated as a

Cancelled ("GTC"),[16] Day ("DAY")[17] or a WAIT[18] order pursuant to Chapter VI, Section 6(a)(1) as proposed to be amended. New Section 15, DMMs, of Chapter VII, Market Participants, provides that market makers may receive Directed Orders in their appointed classes as provided therein, provided they indicated to the Exchange, in a form specified, that they will receive Directed Orders.

Directed Order, because it is not executed immediately upon receipt it will never result in the awarding of a DMM participation entitlement as discussed below.

15 See Chapter VI, Section 1(g)(2). "Immediate Or Cancel" or "IOC" shall mean for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable. IOC orders can be routed if designated as routable.

16 See Chapter VI, Section 1(g)(4). "Good Til Cancelled" or "GTC" shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

17 See Chapter VI, Section 1(g)(3). "DAY" shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

18 See Chapter VI, Section 1(g)(5). "WAIT" shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering party.

Pursuant to new Chapter VII, Market Participants, Section 15, when the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the DMM is quoting at or improving the Exchange's disseminated price, the Directed Order will be automatically executed and allocated in accordance with Chapter VI, Section 10 such that the DMM will receive a DMM participation entitlement provided for in Chapter VI, Section 10, discussed below.[19] If the DMM participation entitlement is not awarded at the time of receipt of the Directed Order, no DMM participation entitlement will apply and the order will be handled as though it were not a Directed Order for the remainder of the life of the order. However, when (a) the Exchange's disseminated price is the NBBO, and the quotation disseminated by the DMM on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, or (b) the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order will be processed as though it were not a Directed Order.[20]

New Section 15 requires a DMM to provide continuous two-sided quotations throughout the trading day in all options issues in which the DMM is assigned for 90 percent of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements of Chapter VII, Section 6. These obligations will apply collectively to all series in all of the issues, rather than on an issue-by-issue

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[19] Chapter VII, Market Participants, Section 15, Directed Market Makers, subsection (i) Price Improving Orders from a DMM participant which are reflected on OPRA at the NBBO retain price priority and are eligible for a DMM participation entitlement.

[20] See Chapter VII, Market Participants, Section 15, Directed Market Makers, subsection (ii).

basis once the market maker has indicated to the Exchange that the market maker will be receiving Directed Orders. While the Market Maker's quoting requirement is a daily obligation, the Exchange is able to determine compliance with these obligations on a monthly basis. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.[21] If a technical failure or limitation of a system of the Exchange prevents a DMM from maintaining, or prevents a DMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the DMM has satisfied the 90 percent quoting standard with respect to that option issue. Further, these obligations shall not apply to DMMs with respect to Quarterly Options Series, adjusted option series,[22] or any series with a time to expiration of nine months or greater. However, a DMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Chapter VI, Section 10.

LMM and New DMM Participation Entitlements

By way of background, Chapter VI, Trading System, Section 10, Book Processing, currently provides that the Exchange will determine to apply, for each option, either a Price/Time or a Size Pro-Rata execution algorithm. In addition to describing each execution algorithm, Chapter VI, Section 10 also describes certain priority overlays applicable to each of those algorithms.

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21 Chapter VII, Market Participants, Section 15, Directed Market Makers, subsection (iii).

22 An adjusted option series is an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying security.

Currently, under both Price/Time and Size Pro-Rata algorithms, Public Customer Priority is always in effect and provides that the highest bid and lowest offer have priority except that Public Customer orders have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority is afforded to such Public Customers orders in the sequence in which they are received by the System. For purposes of the Public Customer Priority overlay, a Public Customer order does not include a Professional[23] order.

Chapter VI, Section 10 also currently provides for a LMM priority overlay after all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at the Exchange's disseminated price. The LMM priority overlay applies under both the Price/Time and the Size Pro-Rata execution algorithms.

Specifically, with respect to Size Pro-Rata executions, the Exchange affords an LMM a participation entitlement if the LMM's bid/offer is at or better than the Exchange's disseminated price and all Public Customer[24] orders have been fully executed.[25] The LMM is not entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements are

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[23] See Chapter I, Section 1(a)(49). The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.

[24] See Chapter I, Section 1(50). The term "Public Customer" means a person that is not a broker or dealer in securities.

[25] Price Improving Orders retain price priority before an LMM participation entitlement is provided at the Exchange's disseminated price. See Chapter VI, Sections 1(a)(6) and 7(b)(3)(B).

considered after the opening process. The LMM participation entitlement provides a BX Options LMM with the greater of: the LMM's Size Pro-Rata share; 50 percent of remaining interest if there is one or no other market maker at that price; 40 percent of remaining interest if there are two other market makers at that price; or 30 percent of remaining interest if there are more than two other market makers at that price; or if rounding would result in an allocation of less than one contract, a BX Options LMM receives one contract. Rounding is up or down to the nearest integer.[26] After all Public Customer orders have been fully executed and LMM participation entitlements applied, if applicable, BX Options market makers then have priority over all other Participant orders at the same price.[27]

For symbols trading under the Price/Time algorithm, LMM participant entitlements may be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or better than the Exchange's disseminated price, the LMM is afforded a participation entitlement.[28] The LMM is not entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. A BX Options LMM receives the greater of: (a) contracts the LMM would

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[26] When the decimal is exactly 0.5, the rounding direction is up to the nearest integer.

[27] Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(2)(ii)(1).

[28] As is the case with Size Pro-Rata executions discussed above, Price Improving Orders retain price priority before an LMM participation entitlement is provided at the Exchange's disseminated price. See Chapter VI, Sections 1(a)(6) and 7(b)(3)(B).

receive if the allocation was based on time priority with Public Customer priority; (b) 50 percent of remaining interest if there is one or no other market maker at that price; (c) 40 percent of remaining interest if there are two other market makers at that price; or (d) 30 percent of remaining interest if there are more than two other market makers at that price or if rounding would result in an allocation of less than one contract, a BX Options LMM receives one contract. Rounding is up or down to the nearest integer.[29]

Under both the Price/Time algorithm and the Size Pro-Rata algorithm, Orders for 5 contracts or fewer are allocated to the LMM. The Exchange reviews this provision quarterly and maintains the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40 percent of the volume executed on the Exchange.[30]

The Exchange is now proposing to amend its rules to provide for a DMM priority entitlement under both the Price/Time and the Size Pro-Rata algorithm, and to make certain corresponding changes and clarifications to the current LMM participation entitlements. Under both Price/Time and Size Pro-Rata algorithms, a market maker which receives a Directed Order is a DMM with respect to that Directed Order. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves the NBBO, the DMM will be afforded a participation entitlement.[31] The DMM shall not be entitled to receive a number of

29 Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(1)(b)(1).

30 Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(b)(2) and (C)(2)(ii)(2).

31 As with the LMM participation entitlements discussed above, Price Improving

contracts that is greater than the displayed size associated with such DMM. DMM participation entitlements will be considered after the opening process. Chapter VI, Section 10(C)(1)(c) specifies that under the Price/Time execution algorithm, DMM participant entitlements (like LMM participation entitlements)[32] shall only be in effect when the Public Customer Priority Overlay is also in effect.

Pursuant to the DMM participation entitlement in effect under the Price/Time algorithm, the DMM would receive, with respect to a Directed Order, the greater of: (1) contracts the DMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) with Public Customer priority; (2) 40 percent of remaining interest; or (3) the LMM participation entitlement (if the DMM is also the LMM). If there are multiple DMM quotes at the same price which are at or improve the NBBO when the Directed Order is received, the DMM participation entitlement would apply only to the one which has the highest time priority. If rounding would result in an allocation of less than one contract, the DMM would receive one contract. Rounding would be up or down to the nearest integer.[33]

Pursuant to the DMM participation entitlement in effect under the Size Pro-Rata algorithm, the DMM would receive, with respect to a Directed Order, the greater of: (1) the DMM's Size Pro-Rata share under subsection(1)(C)(2)(iv); (2) 40 percent of remaining interest; or (3) the LMM participation entitlement (if the DMM is also the

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Orders retain price priority before an DMM participation entitlement is provided at the Exchange's disseminated price. See Chapter VI, Sections 1(a)(6) and 7(b)(3)(B).

[32] Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(1)(b).

[33] Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(c).

LMM). If there are multiple DMM quotes at the same price which are at or improves the NBBO when the Directed Order is received, the DMM participation entitlement would apply only to the one which has the highest time priority. Like the DMM participation entitlement applicable to executions under the Price/Time algorithm, if rounding would result in an allocation of less than one contract, the DMM would receive one contract, and rounding would be up or down to the nearest integer.[34]

As noted above, under both execution algorithms only one participation entitlement, LMM or DMM, may be applied on a given order. The Exchange is amending the current LMM entitlements under each algorithm to provide with respect to a Directed Order that if the LMM is also the DMM, the LMM shall receive the DMM participation entitlement applicable to that algorithm, if any, if such DMM participation entitlement is greater than the LMM participation entitlement the LMM would otherwise receive pursuant to Chapter VI, Section 10, subsections (C)(1)(b)(1)(a)-(d) (in the case of Price/Time symbols) or (C)(2)(ii)(1)(a)-(d) (in the case of Size Pro-Rata symbols). The Exchange is also modifying the LMM priority rules so that the LMM participation entitlement will not apply to a Directed Order if when it is received the DMM's bid/offer is at or improves the NBBO and the LMM is at the same price level and the LMM is not the DMM.[35]

The Exchange is also proposing to revise the current allocation to the LMM of orders for five contracts or fewer (which applies under both algorithms). As revised, the

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[34] Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(2)(iii).

[35] Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(b)(1) (with respect to Price/Time symbols) and (C)(2)(ii)(1) (with respect to Size Pro-Rata Symbols).

provision would not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at the NBBO.[36]

Currently, with respect to executions under the Size Pro-Rata algorithm, BX Options market makers have priority over all other Participant orders at the same price after all Public Customer orders have been fully executed and LMM participation entitlements applied. The Exchange proposes to amend this provision so that this BX Options market maker priority applies only after any DMM participation entitlements have been applied as well.[37]

Finally, the Exchange proposes to clarify with respect to LMMs under both execution algorithms that after all Public Customer orders have been fully executed, upon receipt of an order, the LMM will be afforded a participation entitlement provided that LMM's bid/offer is at *or improves upon* the Exchange's disseminated price. The addition of the reference to an improved bid/offer will conform the LMM provision to the corresponding new DMM provision. The Exchange is also making a clarifying change in Chapter VI, Section 10(1)(C)(1)(b)(1)(a) by changing "subparagraph (1)(a) above" to "subparagraph (C)(1)(a) above"

Examples of DMM Participation Entitlement under Price/Time Algorithm

Examples 1 through 3 below illustrate the manner in which a DMM will be allocated pursuant to the Price/Time model.

Example Number 1:

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36 Chapter VI, Trading Systems, Section 10, Book Processing, subsections (C)(1)(b)(2) (with respect to Price/Time symbols) and (C)(2)(ii)(2) (with respect to Size Pro-Rata Symbols).

37 Chapter VI, Trading Systems, Section 10, Book Processing, subsection (C)(2)(iv).

Assume an LMM has been assigned and that the DMM is **not** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt

Market Maker 1 ("MM1") 1.00 (10) – 1.10 (10)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
DMM 1.00 (10) – 1.10 (20)
LMM 1.00 (10) – 1.10 (10)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Price/Time with Customer Priority would result in Customer A trading 5, Customer B trading 2, MM1 trading 10, Firm trading 5, and DMM trading 18.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal price/time would resume and MM1 would trade 10, Firm would trade 5, and LMM would trade 5.

The LMM allocation is not calculated.

In this example, Price/Time with Customer Priority would prevail since the DMM would receive a greater allocation this way.

Example Number 2:

Assume an LMM is assigned and that the DMM is **not** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt

MM1 1.00 (10) – 1.10 (10)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
Market Maker 2 ("MM2") 1.00 (10) – 1.10 (10)
DMM 1.00 (10) – 1.10 (20)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Price/Time with Customer Priority would result in Customer A trading 5, Customer B trading 2, MM1 trading 10, Firm trading 5, MM2 trading 10 and DMM trading 8.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal price/time would resume with MM1 trading 10, Firm trading 5 and MM2 trading 5.

The LMM allocation would not be calculated.

In this example, the DMM allocation would prevail since the DMM receives a greater allocation this way.

Example Number 3:

Assume an LMM is assigned and that the DMM is **also** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

MM1 1.00 (10) – 1.10 (10)
Firm 25 offered at 1.10
DMM/LMM 1.00 (10) – 1.10 (20)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Price/Time with Customer Priority would result in Customer B trading 2, MM1 trading 10, Firm trading 25, and DMM/LMM trading 3.

DMM allocation would result in Customer B trading 2 and DMM/LMM trading 40% of remaining 38 = 15 (15.2 rounded down); then normal price/time would resume and MM1 would trade 10 and Firm would trade 13.

LMM allocation would result in Customer B trading 2 and DMM/LMM trading 50% of remaining 38 = 19; then normal price time would resume and MM1 would trade 10 and Firm would trade 9.

In this example, the LMM allocation would prevail since the DMM/LMM would receive a greater allocation this way.

Examples of DMM Participation Entitlement under Size Pro-Rata Algorithm

Examples 4 through 6 below illustrate the manner in which a DMM will be allocated pursuant to the Size Pro-Rata model.

Example Number 4:

Assume an LMM is assigned and the DMM is **not** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

LMM 1.00 (10) – 1.10 (15)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
DMM 1.00 (10) – 1.10 (20)
MM1 1.00 (10) – 1.10 (10)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Size Pro-Rata would result in Customer A trading 5, Customer B trading 2, LMM trading 11 (15/45*33remaining), DMM trading 14 (20/45*33), MM1 trading 7 (10/45*33), and then LMM based on time receiving the residual 1 lot.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal Size Pro-Rata for remaining with the LMM trading 12 (15/25*20) and MM1 trading 8 (10/25*20).

The LMM allocation would not be calculated.

In this example, the Size Pro-Rata allocation would prevail since the DMM would receive the greater allocation this way.

Example Number 5:

Assume that no LMM is assigned.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

DMM 1.00 (10) – 1.10 (15)

Customer A 5 offered at 1.10
Firm 5 offered at 1.10
MM1 1.00 (10) – 1.10 (20)
MM2 1.00 (10) – 1.10 (10)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.

Determination of Allocation:

Size Pro-Rata would result in Customer A trading 5, Customer B trading 2, DMM trading 11 (15/45*33remaining), MM1 trading 14 (20/45*33), MM2 trading 7 (10/45*33), and the DMM based on time receiving the residual 1 lot.

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM trading 40% of remaining 33 = 13 (13.2 rounded down); then normal Size Pro-Rata for remaining with MM1 trading 13 (20/30*20) and MM2 trading 6 (10/30*20), and the DMM based on time receiving the residual 1 lot.

The LMM allocation would not be calculated.

In this example, the DMM allocation would prevail since the DMM would receive the greater allocation this way.

Example Number 6:

Assume that an LMM is assigned and that the DMM is **also** the LMM.

ABBO = 1.00 – 1.10
BX BBO = 1.00 – 1.10 comprised of the following in order of receipt:

DMM/LMM 1.00 (10) – 1.10 (15)
Customer A 5 offered at 1.10
Firm 5 offered at 1.10
MM1 1.00 (10) – 1.10 (30)
Customer B 2 offered at 1.10

Incoming Directed Order to pay 1.10 for 40 contracts.
Determination of Allocation:

Size Pro-Rata would result in Customer A trading 5, Customer B trading 2, DMM/LMM trading 11 (15/45*33 remaining), MM1 trading 22 (30/45*33).

The DMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM/LMM trading 40% of remaining 33 = 13 (13.2 rounded down); then Size Pro-Rata for remaining with MM1 trading full size of 20.

The LMM allocation would result in Customer A trading 5, Customer B trading 2, and DMM/LMM entitled to 50% of remaining 33 = 17 (16.5 rounded up) but capped at his size of 15 thus trading 15; then normal Size Pro-Rata for remaining with MM1 trading 18.

In this example, the LMM allocation would prevail since the DMM is the LMM and would receive a greater allocation this way.

Priority Overlays

The Exchange is proposing to amend language in Chapter VI, Section 10(1)(C)(2) which applies to priority overlays. The language currently states that "the Exchange will apply the following designated Participant priority overlays, which are always in effect when the Size Pro-Rata execution algorithm is in effect." The priority overlays which are references are Public Customer, LMM, DMM and market maker priority. The Exchange is proposing to amend the sentence to state, "the Exchange *may* apply the following designated Participant priority overlays, when the Size Pro-Rata execution algorithm is in effect." The amendment is intended to provide more specificity to the rule text as Public Customer priority will be in effect always for Size Pro-Rata, but may be in effect for the other types of priorities. The amendment also conforms the language to the Price/Time rule text in Chapter VI, Section 10(1)(C)(1).

Implementation.

The Exchange desires to implement this rule change by rolling out the rule amendments on an option by option basis over a brief period of time. The Exchange would issue an Options Trader Alert in advance to inform market participants of the date of implementation of this proposal.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[38] in general, and furthers the objectives of Section 6(b)(5) of the Act[39] 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, 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, because it will establish a Directed Order process similar to what operates on other exchanges, as explained herein, which will provide Participants with additional choices among the many competing exchanges with regard to their execution needs and strategies. BX Options operates in an intensely competitive environment and seeks to offer the same services that its competitors offer and in which its customers find value.

In its approval of other options exchange directed order programs, the Commission has, like proposals to amend a specialist guarantee, focused on whether the percentage of the "entitlement" would rise to a level that could have a material adverse impact on quote competition within a particular exchange, and concluded that such programs do not jeopardize market integrity or the incentive for market participants to post competitive quotes.[40] BX's proposed DMM participation entitlement of 40 percent is consistent with the directed order allocations of other options exchanges. BX notes

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38 15 U.S.C. 78f(b).

39 15 U.S.C. 78f(b)(5).

40 See Securities Exchange Act Release No. 51759 (May 27, 2005), 70 FR 32860 (June 6, 2005) (SR-Phlx-2004-91).

that the remaining portion of each order will still be allocated based on the competitive bids/offers of market participants. In addition, at the time of receipt of the Directed Order, a DMM will have to be quoting at the NBBO which is intended to incent the DMM to quote aggressively. BX also notes that DMMs will have greater quoting obligations than other BX Options market makers.

With respect to a DMM's obligations, the Exchange would require DMMs be subject to heightened standards as compared to other market makers. A DMM must provide continuous two-sided quotations throughout the trading day in all options classes in which the DMM is assigned, once the market maker indicates to the Exchange an intent to receive Directed Orders, for 90% of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements herein. These obligations will apply to all of the DMM's option issues collectively, rather than on an option-by-option basis. While the Market Maker's quoting requirement is a daily obligation, the Exchange is able to determine compliance with these obligations on a monthly basis. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve a DMM of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a DMM for failing to meet the continuous quoting obligation each trading day.

The Exchange believes that offering DMMs participation entitlements promotes just and equitable principles of trade because DMMs will be held to a higher standard as compared to other market participants including market makers. A market maker would be required, pursuant to this proposal, to quote 60% of the trading day. DMMs are being held to a higher obligation and therefore are being rewarded with participation entitlements. Similar to market makers, DMMs add value through continuous quoting[41] and the commitment of capital. In addition, the DMM quoting requirements promote liquidity and continuity in the marketplace in requiring DMMs to be held to a higher standard of quoting. The Exchange also believes that the proposed rule change supports the quality of the Exchange's markets because it maintains the quoting obligations of market makers as DMMs at 90%. DMM transactions must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. Accordingly, the proposed rule change supports the quality of the Exchange's trading markets by helping to ensure that DMMs will be required to meet a higher quoting standard in order to reap the benefits of the participation entitlements. The Exchange believes this proposed change to offer participation entitlements to DMMs is offset by DMMs' continued responsibilities to provide significant liquidity to the market to the benefit of market participants.

The proposed rule change also removes impediments to and allows for a free and open market, while protecting investors, by promoting transparency regarding DMMs'

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[41] Pursuant to Chapter VII (Market Participants), Section 5 (Obligations of Market Makers), in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a market maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and market makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. <u>See</u> Chapter VII, Section 5. Further, all market makers are designated as specialists on BX for all purposes under the Act or rules thereunder. <u>See</u> Chapter VII, Section 2.

obligations and benefits in the Exchange Rules. In addition, the Exchange believes that the proposed rule change is designed to not permit unfair discrimination among DMMs.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The competition among the options exchanges is vigorous and this proposal is intended to afford the BX Options market the opportunity to compete for directed order flow. In that regard, the proposal is pro-competitive and will offer market participants an additional venue for the execution of Directed Orders. The Exchange does not believe the proposal imposes a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because the ability to send Directed Orders is available to all Participants, and the ability to become a DMM is available to all market makers.

DMMs will be subject to enhanced quoting obligations and the obligations would apply to all options classes, once the market maker indicates to the Exchange an intent to receive Directed Orders, for 90% of the time the Exchange is open for trading in each issue collectively to all appointed issues, rather than on an option-by-option basis and compliance with this obligation will be determined on a monthly basis. Further, the proposal will not diminish, and in fact may increase, market making activity on the Exchange and thereby enhance intermarket competition. Moreover, the proposed rule change will not impose any burden on intra-market competition because it will affect all DMMs the same. DMMs will be subject to heightened quoting obligations as compared to other BX market makers. All market makers may become DMMs.

The Exchange does not believe the proposed rule change will cause any unnecessary burden on intra-market competition because it provides all market makers the opportunity to benefit from participation entitlements as a DMM. The Exchange believes that the proposed rule change will promote competition among market participants to the benefit of the Exchange, its Members, and market participants.

The Exchange does not believe the proposed change will cause any unnecessary burden on inter-market competition because all market makers are entitled to receive participation entitlements provided they direct orders and those orders are executed by those DMMs. In addition, the Exchange believes that the proposed rule change will in fact promote competition. The Exchange believes allowing DMMs to receive participation entitlements will promote trading activity on the Exchange because it will provide incentives to DMMs to quote in series which they are not obligated to do so, to the benefit of the Exchange, its Members, and market participants.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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 e-mail to rule-comments@sec.gov. Please include File Number SR-BX-2014-049 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-BX-2014-049. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-BX-2014-049 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.[42]

Brent J. Fields
Deputy Secretary

[42] 17 CFR 200.30-3(a)(12).

Exhibit 5

New text is underlined; deleted text is in brackets.

NASDAQ OMX BX Rules

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Options Rules

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Chapter VI Trading Systems

Sec. 1 Definitions
The following definitions apply to Chapter VI for the trading of options listed on BX Options.

(a) – **(d)** No change.

(e) The term "Order Type" shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) [Reserved.] Directed Order. The term "Directed Order" means an order to buy or sell which has been directed (pursuant to the Exchange's instructions on how to direct an order) to a particular Market Maker ("Directed Market Maker"). Directed Orders are handled within the System pursuant to Chapter VI, Section 10.

(2) – **(11)** No change.

(f) – **(h)** No change.

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Sec. 6 Acceptance of Quotes and Orders
All bids or offers made and accepted on BX Options in accordance with the BX Options Rules shall constitute binding contracts, subject to applicable requirements of the Rules of the Exchange and the Rules of the Clearing Corporation.

(a) General - A System order is an order that is entered into the System for display and/or execution as appropriate. Such orders are executable against marketable contra-side orders in the System.

(1) All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be designated as Immediate or Cancel ("IOC"), Good-till-Cancelled ("GTC"), Day ("DAY") or WAIT. Any of the foregoing may also be designated as a Directed Order.

(2) A System order may also be designated as a Limit Order, a Minimum Quantity Order, a Market Order, a Price Improving Order, an All-or-None Order or a Post-Only Order. Any of the foregoing may also be designated as a Directed Order.

(b) – (c) No change.

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Sec. 10 Book Processing
System orders shall be executed through the BX Book Process set forth below:

(1) Execution Algorithm - The Exchange will determine to apply, for each option, one of the following execution algorithms described in paragraphs (A) or (B). The Exchange will issue an Options Alert specifying which execution algorithm will govern which options any time it is modified.

(A) Price/Time - The System shall execute trading interest within the System in price/time priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed in time priority.

(B) Size Pro-Rata - The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded down to the nearest whole number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining Participants in time priority.

(C) Priority Overlays

(1) Priority Overlays Applicable to Price/Time Execution Algorithm: the Exchange may apply the following designated Participant priority overlays, when the Price/Time execution algorithm is in effect:

> (a) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when the Price/Time execution algorithm is in effect.

(b) Lead Market Maker ("LMM") Priority: An LMM may be assigned by the Exchange in each option class in accordance with Chapter VII, Section 13. LMM participant entitlements shall only be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves on the Exchange's disseminated price, the LMM will be afforded a participation entitlement. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the opening process. The LMM participation entitlement is as follows:

(1) A BX Options LMM shall receive the greater of:

(a) contracts the LMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) above with Public Customer priority;

(b) 50% of remaining interest if there is one or no other Market Maker at that price;

(c) 40% of remaining interest if there is two other Market Makers at that price; or

(d) 30% of remaining interest if there are more than two other Market Makers at that price; or

(e) the Directed Market Maker ("DMM") participation entitlement, if any, set forth in subsection (C)(1)(c) below (if the order is a Directed Order and the LMM is also the DMM).

If rounding would result in an allocation of less than one contract, a BX Options LMM shall receive one contract. Rounding will be up or down to the nearest integer.

Notwithstanding the foregoing, when a Directed Order is received and the DMM's bid/offer is at or improves on the NBBO and the LMM is at the same price level and is not the DMM, the LMM participation entitlement set forth in this subsection (C)(1)(b)(1) will not apply with respect to such Directed Order.

(2) Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if the order of 5

contracts or fewer is directed to a DMM who is quoting at or better than the NBBO.

(c) DMM Priority: A market maker which receives a Directed Order is a DMM with respect to that Directed Order. DMM participant entitlements shall only be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves on the NBBO, the DMM will be afforded a participation entitlement. The DMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such DMM. DMM participation entitlements will be considered after the opening process. Pursuant to the DMM participation entitlement, the DMM shall receive, with respect to a Directed Order, the greater of:

(1) contracts the DMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) above with Public Customer priority;

(2) 40% of remaining interest; or

(3) the LMM participation entitlement (if the DMM is also the LMM).

If there are multiple DMM quotes at the same price which are at or improve the NBBO when the Directed Order is received, the DMM participation entitlement shall apply only to the one which has the highest time priority. If rounding would result in an allocation of less than one contract, the DMM shall receive one contract. Rounding will be up or down to the nearest integer.

(d) If there are contracts remaining after [all]a LMM or DMM [interest has been fully executed] participation entitlement has been applied, such contracts shall be executed based on the Price/Time execution algorithm.

(e) Only one participation entitlement, LMM or DMM, may be applied on a given order.

(**2**) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange [will] may apply the following designated Participant priority overlays, [which are always in effect] when the Size Pro-Rata execution algorithm is in effect.

(i) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when Size Pro-Rata execution algorithm is in effect.

(ii) LMM Priority: An LMM may be assigned by the Exchange in each option class in accordance with Chapter VII, Section 13. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves the Exchange's disseminated price, the LMM will be afforded a participation entitlement. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the opening process. The LMM participation entitlement is as follows:

(1) A BX Options LMM shall receive the greater of:

(a) the LMM's Size Pro-Rata share under (1)(C)(2)([iii]iv) below;

(b) 50% of remaining interest if there is one or no other Market Maker at that price;

(c) 40% of remaining interest if there are two other Market Makers at that price; [or]

(d) 30% of remaining interest if there are more than two other Market Makers at that price; or

(e) the DMM participation entitlement, if any, set forth in subsection (C)(2)(iii) below (if the LMM is also the DMM).

If rounding would result in an allocation of less than one contract, a BX Options LMM shall receive one contract. Rounding will be up or down to the nearest integer.

Notwithstanding the foregoing, when a Directed Order is received and the DMM's bid/offer is at or improves on the NBBO and the LMM is at the same price level and is not the DMM, the LMM participation entitlement set forth in this subsection (C)(2)(ii)(1) will not apply with respect to such Directed Order.

(2) Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at or better than the NBBO.

(iii) DMM Priority: A market maker which receives a Directed Order is a DMM with respect to that Directed Order. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves the NBBO, the DMM will be afforded a participation entitlement. The DMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such DMM. DMM participation entitlements will be considered after the opening process. Pursuant to the DMM participation entitlement, the DMM shall receive, with respect to a Directed Order, the greater of:

(1) the DMM's Size Pro-Rata share under (1)(C)(2)(iv) below;

(2) 40% of remaining interest; or

(3) the LMM participation entitlement (if the DMM is also the LMM).

If there are multiple DMM quotes at the same price which are at or improve on the NBBO when the Directed Order is received, the DMM participation entitlement shall apply only to the one which has the highest time priority. If rounding would result in an allocation of less than one contract, the DMM shall receive one contract. Rounding will be up or down to the nearest integer.

([iii]iv) Market Maker Priority: After all Public Customer orders have been fully executed and LMM or DMM participation entitlements applied, if applicable, BX Options Market Makers shall have priority over all other Participant orders at the same price. If there are two or more BX Options Market Maker quotes and orders for the same options series at the same price, those shall be executed based on the Size Pro-Rata execution algorithm. If there are contracts remaining after all Market Maker interest has been fully executed, such contracts shall be executed based on the Size Pro-Rata execution algorithm.

(v) Only one participation entitlement, LMM or DMM, may be applied on a given order.

(2) - (7) No Change.

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Chapter VII Market Participants

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Sec 15. Directed Market Makers

Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of this Section 15, Directed Market Makers provided they indicated to the Exchange, in a form specified, that they will receive Directed Orders.

(i) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Market Maker is quoting at or improving the Exchange's disseminated price, the Directed Order shall be automatically executed and allocated in accordance with Chapter VI, Section 10 such that the Directed Market Maker shall receive a Directed Market Maker participation entitlement provided for therein.

(ii) When (a) the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Market Maker on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, or (b) the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be processed as though it were not a Directed Order.

(iii) A Directed Market Maker must provide continuous two-sided quotations throughout the trading day in all options issues for which the Directed Market Maker is assigned for 90% of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements of Chapter VII, Section 6. These obligations will apply collectively to all series in all of the issues, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a monthly basis. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. If a technical failure or limitation of a system of the Exchange prevents a Directed Market Maker from maintaining, or prevents a Directed Market Maker from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the Directed Market Maker has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(iv) The obligations set forth in subsection (iii) above shall not apply to DMMs with respect to Quarterly Options Series, adjusted option series, or any series with a time to expiration of nine months or greater. For purposes of this Rule, an adjusted option series is an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying security. However, a DMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Chapter VI, Section 10.

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