

Required fields are shown with yellow backgrounds and asterisks.

Filing by **NASDAQ BX, Inc.**  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

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

**Description**

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

A proposal to amend Chapter VII, Section 6(f), entitled Automated Removal of Quotes.

**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 * <input type="text" value="Angela"/>	Last Name * <input type="text" value="Dunn"/>
Title * <input type="text" value="Associate General Counsel"/>	
E-mail * <input type="text" value="angela.dunn@nasdaq.com"/>	
Telephone * <input type="text" value="(215) 496-5692"/>	Fax <input type="text"/>

**Signature**

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

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

(Title \*)

Date <input type="text" value="06/13/2016"/>	Executive Vice President and General Counsel
By <input type="text" value="Edward S. Knight"/>	<div style="border: 1px solid black; height: 30px; width: 100%;"></div>
(Name *)	

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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) NASDAQ BX, Inc. (“Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“Commission”) a proposal to amend Chapter VII, Section 6(f), entitled “Automated Removal of Quotes.”

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the “Board”) on July 1, 2015. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Angela Saccomandi Dunn  
Associate General Counsel  
\_Nasdaq, Inc.  
215-496-5692.

---

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

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

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

a. Purpose

The Exchange proposes to amend BX Rules at Chapter VII, Section 6(f), entitled “Automated Removal of Quotes” to modify the minimum Specified Percentage (as described below) determined by a BX Market Maker<sup>3</sup> to enable a BX Market Maker to enhance its risk management for an underlying security as market conditions warrant, based on its own risk tolerance level and quoting behavior. The Exchange proposes to permit the BX Market Maker to set the Specified Percentage more broadly, no less than 1% with this rule change. The Exchange also proposes to amend the definition of “disseminated size.”<sup>4</sup>

Background

Today, Chapter VII, Section 6(f) permits BX Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. A BX Market Maker may provide a specified time period and a specified percentage by which the Exchange’s System will automatically remove a BX Market Maker’s quotes in all series of an underlying security submitted through designated BX

---

<sup>3</sup> The term “BX Options Market Maker” or “Options Market Maker” (herein “BX Market Maker”) means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules.” See BX Rules at Chapter I, Section 1(a)(9).

<sup>4</sup> See Securities Exchange Act Release No 76317 (October 30, 2015), 80 FR 68586 at 68587 (November 5, 2015) (SR-BX-2015-060). The Exchange defined disseminated size in this rule change in footnote 12, as the original size quoted by the Participant.

protocols, as specified by the Exchange, during a specified time period not to exceed 15 seconds (“Percentage-Based Specified Time Period.”).<sup>5</sup>

For each series in an option, the System determines: (i) the percentage that the number of contracts executed in that series represents relative to the BX Market Maker’s disseminated<sup>6</sup> size of each side in that series (“Series Percentage”); and (ii) the sum of the Series Percentage in the option issue (“Issue Percentage”). The Exchange proposes herein to redefine disseminated size as the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. The System tracks and calculates the net impact of positions in the same option issue during the Percentage-Based Specified Time Period. The System tracks transactions, i.e., the sum of buy-side put percentages, the sum of sell-side put percentages, the sum of buy-side call percentages, and the sum of sell-side call percentages, and then calculates the absolute value of the difference between the buy-side puts and the sell-side puts plus the absolute value of the difference between the buy-side calls and the sell-side calls. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the BX Market Maker, not less than 100% (“Specified Percentage”), the System automatically removes a BX Market Maker’s quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time.

---

<sup>5</sup> A specified time period commences for an option when a transaction occurs in any series in such option.

<sup>6</sup> The disseminated size is the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions.

The Percentage-Based Specified Time Period commences for an option every time an execution occurs in any series in such option and continues until the System removes quotes as described in Chapter VII, Section 6(f)(iv) or (v) or the Percentage-Based Time Period expires. The Exchange counts Specialized Quote Feed (“SQF”)<sup>7</sup> quotes in determining the number of contracts traded and removed by the System. The Percentage-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

#### Proposal

The Exchange proposes to lower the Specified Percentage from 100% to 1%. The proposal would provide that if the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the BX Market Maker, not less than 1% (“Specified Percentage”), the System automatically removes a BX Market Maker’s quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time. This proposal would allow a BX Market Maker to establish a Specified Percentage at any percentage level greater than or equal to 1% for an option in which the BX Market Maker is appointed. Today, the Specified Percentage would be set at greater than or equal to

---

<sup>7</sup> SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also not included. The Exchange does not intend for auction mechanism responses to be removed with this risk feature in order that the rules governing the auction govern the manner in which quotes and orders will be executed. Market sweeps are one-sided and immediately executable against orders against which they are marketable.

100%. This amendment will allow BX Market Makers to better manage their risk and assist them to avoid trading a number of contracts that exceeds the BX Market Maker's risk tolerance level across multiple series of a single underlying when such series are executed in rapid succession.

BX Market Makers will be able to more precisely customize their risk settings within the System. BX Market Makers will be able to consider factors such as present and anticipated market conditions, news in an option, and a sudden change in volatility of an option. BX Market Makers are required to utilize either the Percentage Based Threshold or the Volume Based Threshold. BX Market Makers that select to utilize the Percentage-Based Threshold will be able to adopt more precise controls with this proposal based on the BX Market Maker's risk tolerance level.

Market Makers must utilize either the Percentage-Based<sup>8</sup> or Volume-Based risk controls. Market Makers may contact Market Operations to set their percentage and specified time period.

By way of example, if a BX Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on BX and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6(f) would:

---

<sup>8</sup> BX Market Makers selecting the Percentage-Based risk control in Chapter VII, Section 6(f) (i) are required to provide a specified time period, up to 15 seconds, and a specified percentage with a number of 1% or greater, as proposed herein, to the BX Market Operations staff to select this risk control. If a BX Market Maker does not desire to utilize the Percentage-Based risk control the BX Market Maker must utilize the Volume-Based risk control which is similarly set-up by contacting Market Operations and providing certain settings.

- (1) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (2) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

By way of example, if a Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on BX and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6(f) would:

- (3) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (4) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

Another example is with multiple executions. Presume MM1 has a rapid fire percentage setting of 80% by 5 seconds and MM1 has a displayed quote of 2.00 (100) x 2.25 (100) for IBM May 20, 2016 70 puts and he is the only displayed size on the BX. Also, presume an order comes in to buy 50 IBM May 20, 2016 70 puts for 2.25. The following executions would result:

MM1 receives an execution Sold 50 @ 2.25  
 MM1 quote updates to 2.00 (100) x 2.25 (50)  
 Within 1 second an order comes in to buy 45 IBM May 20, 2016 70 puts for 2.25  
 MM1 receives an execution Sold 45 @ 2.25  
 MM1 receives rapid fire for IBM

The Exchange also proposes to memorialize the definition of disseminated size, which is the original size quoted by the Market Maker, within Chapter VII, Section 6(f)

The Exchange also proposes to amend the definition of disseminated size as originally explained and memorialize the definition within Chapter VII, Section 6(f).

With respect to the disseminated size, the Exchange previously defined disseminated size as "...the original size quoted by the Participant."<sup>9</sup> The Exchange proposes to amend the

---

<sup>9</sup> See note 4 above.

definition to the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. For example, with the proposed definition, if a BX Market Maker with a Percentage-Based Specified Time Period of 10 seconds and a Specified Percentage of 100% submits a quote over SQF of 1.00(100) x 1.10(100) and a buy order executes 75, the remaining size would be 1.00(100) x 1.10(25). Thereafter a new Percentage-Based Specified Time Period begins and current Series Percentage executed is 75 and three seconds pass and the BX Market Maker re-quotes 1.00(100) x 1.10 (100), an incoming buy order of 43 would cause the Issue Percentage to meet the Percentage-Based Threshold. This is due to a disseminated size of 175 (the executed 75 plus the newly quoted 100) and rounding ( $0.75+43/175=0.9957$  rounds up to 100%). If the former definition applied, the disseminated size would have been 100 and an execution of only 25 contracts on the same side would have caused the Issue Percentage to meet the Percentage-Based Threshold, which is not the case. In other words all current quotes on that side for that series (for that BX Market Maker) in addition to all the executions that have occurred on that side for that series (for that BX Market Maker) within the Percentage-Based Specified Time Period would comprise the disseminated size.

The Exchange believes that this new definition accurately represents the manner in which the Issue Percentage is calculated and seeks to amend the definition of “disseminated size” in this rule change. The Exchange has always calculated the disseminated size in the proposed fashion. The prior definition was not accurate and the Exchange seeks to amend the definition with this proposal and memorialize the definition within the rule.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>11</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

BX Market Makers are obligated to submit continuous two-sided quotations in a certain number of series in their appointed option classes for a certain percentage of each trading session,<sup>12</sup> rendering them vulnerable to risk from unusual market condition, volatility in specific options, and other market events that may cause them to receive multiple, extremely rapid automatic executions before they can adjust their quotations and overall risk exposure in the market. Without adequate risk management tools in place on the Exchange, the incentive for BX Market Makers to quote aggressively, respecting both price and size could be diminished. Such a result may undermine the quality of the markets, which are enhanced by the depth and liquidity such Market Makers provide in the marketplace.

---

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> Pursuant to BX Rules at Chapter VII, Section 5, entitled “Obligations of Market Makers”, in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a BX Market Maker 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. Further, all Market Makers are designated as specialists on BX for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

By allowing the percentage to be reduced from 100% to 1%, the Exchange provides its BX Market Makers the desired flexibility to take into account such factors as present and anticipated market conditions, news in an option or sudden change in volatility of an option without any limitation regarding the Specified Percentage. This should encourage BX Market Makers to provide additional depth and liquidity to the Exchange's markets, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

The proposal is consistent with the Act because the reduction of the Specified Percentage to not less than 1% provides more alternatives to BX Market Makers in setting their percentage without impacting their firm quote obligations. The System operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to BX Market Makers, their obligation to provide continuous two-sided quotes on a daily basis is not diminished by the removal of such quotes by the Percentage-Based Threshold. BX Market Makers are required to provide continuous two-sided quotes on a daily basis.<sup>13</sup> BX Market Makers that utilize the Percentage-Based Threshold will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will the change prohibit the Exchange from taking disciplinary action against a BX Market Maker for failing to meet the continuous quoting obligation each trading day. All quotes entered into the System are considered firm. Quotes will only be removed from the System once the Percentage-

---

<sup>13</sup>

Id.

Based Threshold has been met if the quote was not otherwise executed by an incoming order.

This risk feature will continue to remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest by allowing BX Market Makers to remove their quotes and orders in the event that market conditions warrant, based on their own risk tolerance level. BX Market Makers provide liquidity to the market place and have obligations unlike other market participants.<sup>14</sup> This risk feature is important because it will enable BX Market Makers to manage their exposure at the Exchange. Further, permitting a broader setting would continue to allow BX Market Makers to have flexibility in setting their risk exposure to prevent unintended triggers of the Percentage-Based Threshold and it continues to allow BX Market Makers to set a Specified Time Period. Each BX Market Maker has different levels of sensitivity and its own system safeguards as well. The proposed setting would permit each BX Market Maker to select a setting that is appropriate to capture the needs of that BX Market Maker.

Further, it is important to note that any interest that is executable against a BX Market Maker's quotes and orders that are received<sup>15</sup> by the Exchange prior to the trigger of the Percentage-Based Threshold, which is processed by the System, automatically executes at the price up to the BX Market Maker's size. Further, the Purge Notification Message is accepted by the System in the order of receipt in the queue and is processed in

---

<sup>14</sup> Id.

<sup>15</sup> The time of receipt for an order or quote is the time such message is processed by the Exchange book.

that order so that interest that is already accepted into the System is processed prior to the message.

The Exchange notes that Miami International Securities Exchange, LLC (“MIAX”) implemented a rule that changed its Allowable Engagement Percentage from 100% to any percentage established by the Market Maker.<sup>16</sup> The BX rule is similar to MIAX’s in that a member is required to have a setting, although MIAX has a default setting in place in the instance that no percentage is provided. Market Makers that select the Percentage-Based risk tool must provide the Exchange with a specified time period and a percentage greater than or equal to 1%.

Amending the definition of disseminated size will provide market participants with greater information on the manner in which the Exchange computes the Issue Percentage. The Exchange believes that the manner in which the Exchange utilizes disseminated size to calculate the Issue Percentage is consistent with the Act. The counting method permits the Exchange to update the reference number to include the executed contracts. While this method differs from the method previously described, the Exchange believes that there is no industry standard for counting and its method permits market participants to achieve the risk protection that is desired. With the proposed definition, each execution uses the Percentage-Based Specified Time Period that existed at the time of the execution. BX Market Makers can change the Percentage-Based Specified Time Period at any time. If a BX Market Maker is using a Percentage-Based Specified Time Period of 15 seconds when an execution happens, then changes the

---

<sup>16</sup> See Securities Exchange Act Release No. 77817 (May 12, 2016), 81 FR 31286 (May 18, 2016) (SR-MIAX-2016-10).

Percentage-Based Specified Time Period to half a second, that first execution will not expire until 15 seconds have passed. The selected Percentage-Based Specified Time Period will persist for 15 seconds and the number of executed contracts will be included in the denominator of subsequent executions for a full 15 seconds.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Percentage-Based Threshold is meant to protect BX Market Makers from exposure to excessive risk. The Exchange believes this proposal will foster competition by providing BX Market Makers with the ability to enhance and customize their percentage in order to compete for executions and order flow. Specifically, the proposal does not impose a burden on intra-market or inter-market competition; rather, it provides BX Market Makers with the opportunity to avail themselves of similar risk tools which are currently available on other exchanges.<sup>17</sup> BX Market Makers quote across many series in an option creating the possibility of “rapid fire” executions that can create large, unintended principal positions that expose BX Market Makers. The Percentage-Based Threshold permits BX Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange is proposing this rule change to continue to permit BX Market Makers to reduce their risk in the event the BX Market Maker is suffering from a system issue or due to the occurrence of unusual or unexpected market activity. Reducing such risk will enable BX Market Makers to enter quotations without any fear of inadvertent

---

<sup>17</sup> See Section 8 of the 19b4.

exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Reducing risk by utilizing the proposed risk protections enables BX Market Makers, specifically, to enter quotations with larger size, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

The Exchange believes that amending the definition of disseminated size does not create an undue burden on competition because the Exchange will uniformly calculate the Percentage-Based Threshold in a uniform manner for all BX Market Makers. The Exchange is memorializing the definition within the Rule.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>18</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>19</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may

---

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</sup> 17 CFR 240.19b-4(f)(6).

designate if consistent with the protection of investors and the public interest. The proposed rule change does not significantly affect the protection of investors or the public interest because the proposal provides more alternatives to BX Market Makers in setting their percentage without impacting their firm quote obligations. Without adequate risk management tools in place on the Exchange, the incentive for BX Market Makers to quote aggressively, respecting both price and size could be diminished. Such a result may undermine the quality of the markets, which are enhanced by the depth and liquidity such BX Market Makers provide. By allowing the percentage to be reduced from 100% to 1%, the Exchange provides its BX Market Makers the desired flexibility to take into account such factors as present and anticipated market conditions, news in an option or sudden change in volatility of an option without any limitation regarding the Specified Percentage. This should encourage BX Market Makers to provide additional depth and liquidity to the Exchange's markets. The proposal does not impose any significant burden on competition; rather, it fosters competition by providing BX Market Makers with the ability to enhance and customize their percentage in order to compete for executions and order flow. BX Market Makers quote across many series in an option creating the possibility of "rapid fire" executions that can create large, unintended principal positions that expose BX Market Makers. The Percentage-Based Threshold permits BX Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. The proposed rule is similar to other options rules<sup>20</sup> and does not raise any novel or unique regulatory issues. While the other exchange rules are not precisely identical, they are substantially similar in that they

---

<sup>20</sup> See note 17 above.

permit a market maker to select the appropriate risk level for the removal of quotes. The Exchange's proposal to amend the definition of disseminated size does not significantly affect the protection of investors or the public interest because the counting method permits the Exchange to update the reference number to include the executed contracts. While this method differs from the method previously described, the Exchange believes that there is no industry standard for counting and its method permits market participants to achieve the risk protection that is desired. With the proposed definition, each execution uses the Percentage-Based Specified Time Period that existed at the time of the execution. In other words all current quotes on that side for that series (for that BX Market Maker) in addition to all the executions that have occurred on that side for that series (for that BX Market Maker) within the Percentage-Based Specified Time Period would comprise the disseminated size. The proposal does not impose any significant burden on competition because the Exchange will uniformly calculate the Percentage-Based Threshold in a uniform manner for all BX Market Makers.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) so that it may effectively compete with MIAX and offer its members the ability to select a percentage that is lower than 100% for this risk feature. This feature will permit BX Market Makers to manage their risk and appropriately tailor their settings to effectively submit quotes and orders and protect against exposure to excessive risk.

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

The Exchange notes that MIAX recently filed to amend its Allowable Engagement Percentage from 100% to any percentage established by the Market Maker.<sup>21</sup> The BX rule is similar to MIAX's in that a member is required to have a setting, although MIAX has a default setting in place in the instance that no percentage is provided. Also, MIAX differs from BX because a setting of 0 is permitted at MIAX. BX would enforce its Market Makers providing a percentage greater than or equal to 1% for Market Makers that elect to utilize the Percentage-Based Threshold.

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

Not applicable.

---

<sup>21</sup> Id.

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 Change for publication in the Federal Register.
5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-BX-2016-032)

June \_\_, 2016

Self-Regulatory Organizations; NASDAQ BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Automated Removal of Quotes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 13, 2016, NASDAQ BX, Inc. (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 a proposal to amend Chapter VII, Section 6(f), entitled “Automated Removal of Quotes.”

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

---

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

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

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 Exchange proposes to amend BX Rules at Chapter VII, Section 6(f), entitled “Automated Removal of Quotes” to modify the minimum Specified Percentage (as described below) determined by a BX Market Maker<sup>3</sup> to enable a BX Market Maker to enhance its risk management for an underlying security as market conditions warrant, based on its own risk tolerance level and quoting behavior. The Exchange proposes to permit the BX Market Maker to set the Specified Percentage more broadly, no less than 1% with this rule change. The Exchange also proposes to amend the definition of “disseminated size.”<sup>4</sup>

Background

Today, Chapter VII, Section 6(f) permits BX Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. A BX Market Maker may provide a specified time period and a specified

---

<sup>3</sup> The term “BX Options Market Maker” or “Options Market Maker” (herein “BX Market Maker”) means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules.” See BX Rules at Chapter I, Section 1(a)(9).

<sup>4</sup> See Securities Exchange Act Release No 76317 (October 30, 2015), 80 FR 68586 at 68587 (November 5, 2015) (SR-BX-2015-060). The Exchange defined disseminated size in this rule change in footnote 12, as the original size quoted by the Participant.

percentage by which the Exchange's System will automatically remove a BX Market Maker's quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during a specified time period not to exceed 15 seconds ("Percentage-Based Specified Time Period").<sup>5</sup>

For each series in an option, the System determines: (i) the percentage that the number of contracts executed in that series represents relative to the BX Market Maker's disseminated<sup>6</sup> size of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The Exchange proposes herein to redefine disseminated size as the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. The System tracks and calculates the net impact of positions in the same option issue during the Percentage-Based Specified Time Period. The System tracks transactions, i.e., the sum of buy-side put percentages, the sum of sell-side put percentages, the sum of buy-side call percentages, and the sum of sell-side call percentages, and then calculates the absolute value of the difference between the buy-side puts and the sell-side puts plus the absolute value of the difference between the buy-side calls and the sell-side calls. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the BX Market Maker, not less than 100% ("Specified Percentage"), the System automatically removes a BX Market Maker's quotes in all series of an underlying

---

<sup>5</sup> A specified time period commences for an option when a transaction occurs in any series in such option.

<sup>6</sup> The disseminated size is the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions.

security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time.

The Percentage-Based Specified Time Period commences for an option every time an execution occurs in any series in such option and continues until the System removes quotes as described in Chapter VII, Section 6(f)(iv) or (v) or the Percentage-Based Time Period expires. The Exchange counts Specialized Quote Feed (“SQF”)<sup>7</sup> quotes in determining the number of contracts traded and removed by the System. The Percentage-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

#### Proposal

The Exchange proposes to lower the Specified Percentage from 100% to 1%. The proposal would provide that if the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the BX Market Maker, not less than 1% (“Specified Percentage”), the System automatically removes a BX Market Maker’s quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time. This proposal would allow a BX Market Maker to establish a Specified Percentage at any

---

<sup>7</sup> SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also not included. The Exchange does not intend for auction mechanism responses to be removed with this risk feature in order that the rules governing the auction govern the manner in which quotes and orders will be executed. Market sweeps are one-sided and immediately executable against orders against which they are marketable.

percentage level greater than or equal to 1% for an option in which the BX Market Maker is appointed. Today, the Specified Percentage would be set at greater than or equal to 100%. This amendment will allow BX Market Makers to better manage their risk and assist them to avoid trading a number of contracts that exceeds the BX Market Maker's risk tolerance level across multiple series of a single underlying when such series are executed in rapid succession.

BX Market Makers will be able to more precisely customize their risk settings within the System. BX Market Makers will be able to consider factors such as present and anticipated market conditions, news in an option, and a sudden change in volatility of an option. BX Market Makers are required to utilize either the Percentage Based Threshold or the Volume Based Threshold. BX Market Makers that select to utilize the Percentage-Based Threshold will be able to adopt more precise controls with this proposal based on the BX Market Maker's risk tolerance level.

Market Makers must utilize either the Percentage-Based<sup>8</sup> or Volume-Based risk controls. Market Makers may contact Market Operations to set their percentage and specified time period.

By way of example, if a BX Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

---

<sup>8</sup> BX Market Makers selecting the Percentage-Based risk control in Chapter VII, Section 6(f) (i) are required to provide a specified time period, up to 15 seconds, and a specified percentage with a number of 1% or greater, as proposed herein, to the BX Market Operations staff to select this risk control. If a BX Market Maker does not desire to utilize the Percentage-Based risk control the BX Market Maker must utilize the Volume-Based risk control which is similarly set-up by contacting Market Operations and providing certain settings.

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on BX and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6(f) would:

- (1) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (2) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

By way of example, if a Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on BX and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6(f) would:

- (3) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (4) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

Another example is with multiple executions. Presume MM1 has a rapid fire percentage setting of 80% by 5 seconds and MM1 has a displayed quote of 2.00 (100) x 2.25 (100) for IBM May 20, 2016 70 puts and he is the only displayed size on the BX. Also, presume an order comes in to buy 50 IBM May 20, 2016 70 puts for 2.25. The following executions would result:

MM1 receives an execution Sold 50 @ 2.25  
MM1 quote updates to 2.00 (100) x 2.25 (50)  
Within 1 second an order comes in to buy 45 IBM May 20, 2016 70 puts for 2.25  
MM1 receives an execution Sold 45 @ 2.25  
MM1 receives rapid fire for IBM

The Exchange also proposes to memorialize the definition of disseminated size, which is the original size quoted by the Market Maker, within Chapter VII, Section 6(f)

The Exchange also proposes to amend the definition of disseminated size as originally explained and memorialize the definition within Chapter VII, Section 6(f). With respect to the disseminated size, the Exchange previously defined disseminated size as "...the original size quoted by the Participant."<sup>9</sup> The Exchange proposes to amend the definition to the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. For example, with the proposed definition, if a BX Market Maker with a Percentage-Based Specified Time Period of 10 seconds and a Specified Percentage of 100% submits a quote over SQF of 1.00(100) x 1.10(100) and a buy order executes 75, the remaining size would be 1.00(100) x 1.10(25). Thereafter a new Percentage-Based Specified Time Period begins and current Series Percentage executed is 75 and three seconds pass and the BX Market Maker re-quotes 1.00(100) x 1.10 (100), an incoming buy order of 43 would cause the Issue Percentage to meet the Percentage-Based Threshold. This is due to a disseminated size of 175 (the executed 75 plus the newly quoted 100) and rounding ( $0.75+43/175=0.9957$  rounds up to 100%). If the former definition applied, the disseminated size would have been 100 and an execution of only 25 contracts on the same side would have caused the Issue Percentage to meet the Percentage-Based Threshold, which is not the case. In other words all current quotes on that side for that series (for that BX Market Maker) in addition to all the executions that have occurred on that side for that series (for that BX Market Maker) within the Percentage-Based Specified Time Period would comprise the disseminated size.

---

<sup>9</sup> See note 4 above.

The Exchange believes that this new definition accurately represents the manner in which the Issue Percentage is calculated and seeks to amend the definition of “disseminated size” in this rule change. The Exchange has always calculated the disseminated size in the proposed fashion. The prior definition was not accurate and the Exchange seeks to amend the definition with this proposal and memorialize the definition within the rule.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>11</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

BX Market Makers are obligated to submit continuous two-sided quotations in a certain number of series in their appointed option classes for a certain percentage of each trading session,<sup>12</sup> rendering them vulnerable to risk from unusual market condition, volatility in specific options, and other market events that may cause them to receive

---

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> Pursuant to BX Rules at Chapter VII, Section 5, entitled “Obligations of Market Makers”, in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a BX Market Maker 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. Further, all Market Makers are designated as specialists on BX for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

multiple, extremely rapid automatic executions before they can adjust their quotations and overall risk exposure in the market. Without adequate risk management tools in place on the Exchange, the incentive for BX Market Makers to quote aggressively, respecting both price and size could be diminished. Such a result may undermine the quality of the markets, which are enhanced by the depth and liquidity such Market Makers provide in the marketplace.

By allowing the percentage to be reduced from 100% to 1%, the Exchange provides its BX Market Makers the desired flexibility to take into account such factors as present and anticipated market conditions, news in an option or sudden change in volatility of an option without any limitation regarding the Specified Percentage. This should encourage BX Market Makers to provide additional depth and liquidity to the Exchange's markets, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

The proposal is consistent with the Act because the reduction of the Specified Percentage to not less than 1% provides more alternatives to BX Market Makers in setting their percentage without impacting their firm quote obligations. The System operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to BX Market Makers, their obligation to provide continuous two-sided quotes on a daily basis is not diminished by the removal of such quotes by the Percentage-Based Threshold. BX Market Makers are required to provide continuous two-sided quotes on a daily basis.<sup>13</sup> BX Market Makers

---

<sup>13</sup> Id.

that utilize the Percentage-Based Threshold will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will the change prohibit the Exchange from taking disciplinary action against a BX Market Maker for failing to meet the continuous quoting obligation each trading day. All quotes entered into the System are considered firm. Quotes will only be removed from the System once the Percentage-Based Threshold has been met if the quote was not otherwise executed by an incoming order.

This risk feature will continue to remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest by allowing BX Market Makers to remove their quotes and orders in the event that market conditions warrant, based on their own risk tolerance level. BX Market Makers provide liquidity to the market place and have obligations unlike other market participants.<sup>14</sup> This risk feature is important because it will enable BX Market Makers to manage their exposure at the Exchange. Further, permitting a broader setting would continue to allow BX Market Makers to have flexibility in setting their risk exposure to prevent unintended triggers of the Percentage-Based Threshold and it continues to allow BX Market Makers to set a Specified Time Period. Each BX Market Maker has different levels of sensitivity and its own system safeguards as well. The proposed setting would permit each BX Market Maker to select a setting that is appropriate to capture the needs of that BX Market Maker.

---

<sup>14</sup> Id.

Further, it is important to note that any interest that is executable against a BX Market Maker's quotes and orders that are received<sup>15</sup> by the Exchange prior to the trigger of the Percentage-Based Threshold, which is processed by the System, automatically executes at the price up to the BX Market Maker's size. Further, the Purge Notification Message is accepted by the System in the order of receipt in the queue and is processed in that order so that interest that is already accepted into the System is processed prior to the message.

The Exchange notes that Miami International Securities Exchange, LLC (“MIAX”) implemented a rule that changed its Allowable Engagement Percentage from 100% to any percentage established by the Market Maker.<sup>16</sup> The BX rule is similar to MIAX’s in that a member is required to have a setting, although MIAX has a default setting in place in the instance that no percentage is provided. Market Makers that select the Percentage-Based risk tool must provide the Exchange with a specified time period and a percentage greater than or equal to 1%.

Amending the definition of disseminated size will provide market participants with greater information on the manner in which the Exchange computes the Issue Percentage. The Exchange believes that the manner in which the Exchange utilizes disseminated size to calculate the Issue Percentage is consistent with the Act. The counting method permits the Exchange to update the reference number to include the executed contracts. While this method differs from the method previously described, the

---

<sup>15</sup> The time of receipt for an order or quote is the time such message is processed by the Exchange book.

<sup>16</sup> See Securities Exchange Act Release No. 77817 (May 12, 2016), 81 FR 31286 (May 18, 2016) (SR-MIAX-2016-10).

Exchange believes that there is no industry standard for counting and its method permits market participants to achieve the risk protection that is desired. With the proposed definition, each execution uses the Percentage-Based Specified Time Period that existed at the time of the execution. BX Market Makers can change the Percentage-Based Specified Time Period at any time. If a BX Market Maker is using a Percentage-Based Specified Time Period of 15 seconds when an execution happens, then changes the Percentage-Based Specified Time Period to half a second, that first execution will not expire until 15 seconds have passed. The selected Percentage-Based Specified Time Period will persist for 15 seconds and the number of executed contracts will be included in the denominator of subsequent executions for a full 15 seconds.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Percentage-Based Threshold is meant to protect BX Market Makers from exposure to excessive risk. The Exchange believes this proposal will foster competition by providing BX Market Makers with the ability to enhance and customize their percentage in order to compete for executions and order flow. Specifically, the proposal does not impose a burden on intra-market or inter-market competition; rather, it provides BX Market Makers with the opportunity to avail themselves of similar risk tools which are currently available on other exchanges.<sup>17</sup> BX Market Makers quote across many series in an option creating the possibility of “rapid fire” executions that can create large, unintended principal positions that expose BX Market Makers. The Percentage-Based

---

<sup>17</sup> See Section 8 of the 19b4.

Threshold permits BX Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange is proposing this rule change to continue to permit BX Market Makers to reduce their risk in the event the BX Market Maker is suffering from a system issue or due to the occurrence of unusual or unexpected market activity. Reducing such risk will enable BX Market Makers to enter quotations without any fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Reducing risk by utilizing the proposed risk protections enables BX Market Makers, specifically, to enter quotations with larger size, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

The Exchange believes that amending the definition of disseminated size does not create an undue burden on competition because the Exchange will uniformly calculate the Percentage-Based Threshold in a uniform manner for all BX Market Makers. The Exchange is memorializing the definition within the Rule.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act<sup>18</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>19</sup>

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

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. 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](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2016-032 on the subject line.

---

<sup>18</sup> 15 U.S.C. 78s(b)(3)(a)(iii).

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

Paper comments:

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

All submissions should refer to File Number SR-BX-2016-032. 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-2016-032 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

Robert W. Errett  
Deputy Secretary

---

<sup>20</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*New text is underlined; deleted text is in brackets.*

**NASDAQ BX Rules**

\* \* \* \* \*

**Options Rules**

\* \* \* \* \*

**Chapter VII Market Participants**

\* \* \* \* \*

**Sec. 6 Market Maker Quotations**

(a) – (e) No Change.

**(f) Automated Removal of Quotes**

(i) A BX Market Maker may provide a specified time period and a specified percentage (as these terms are defined below) by which the Exchange’s System will automatically remove a BX Market Maker’s quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during a specified time period established by the BX Market Maker not to exceed 15 seconds (“Percentage-Based Specified Time Period”). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the disseminated size (the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions) of each side in that series (“Series Percentage”); and (ii) the sum of the Series Percentage in the option issue (“Issue Percentage”). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a BX Market Maker, not less than [100]1% (“Specified Percentage”), the System will automatically remove a BX Market Maker’s quotes in all series of the underlying security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period (“Percentage-Based Threshold”). A Percentage-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage -Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

(ii) – (vii) No change.

\* \* \* \* \*