Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2018 - * 050

Amendment No. (req. for Amendments *)

Filing by   NASDAQ 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

Pilot ☐	Extension of Time Period for Commission Action * ☐	Date Expires *

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

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

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

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

Proposal to add definitions to Chapter I, Section 1, titled General Provisions and also amend Chapter VI, Section 18, titled, Risk Protections

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 * Principal Associate General Counsel

E-mail * angela.dunn@nasdaq.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.

(Title *)

Date 10/18/2018

By   Edward S. Knight

Global Chief Legal and Policy Officer

(Name *)

edward.knight@nasdaq.com

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.

Required fields are shown with yellow backgrounds and asterisks.

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 *

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

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

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Exhibit Sent As Paper Document
☐

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document
☐

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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. ("BX" or "Exchange"), pursuant to Section 19(b)(1) of

the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with

the Securities and Exchange Commission ("SEC" or "Commission") a proposal to add

definitions to Chapter I, Section 1, titled "General Provisions" and also amend Chapter

VI, Section 18, titled, "Risk Protections."

        The Exchange requests that the Commission waive the 30-day operative delay

period contained in Exchange Act Rule 19b-4(f)(6)(iii).[3]

        A notice of the proposed rule change for publication in the Federal Register is

attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

        (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 September 19,

2017. 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
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692

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

[2]   17 CFR 240.19b-4.

[3]   17 CFR 240.19b-4(f)(6)(iii).

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

        a.   Purpose

        The purpose of this rule change is to adopt certain definitions within Chapter I,

Section 1, titled "General Provisions" and also amend Chapter VI, Section 18, titled,

"Risk Protections." Each change is described in more detail below.

        Definitions

        The Exchange proposes to amend Chapter I, Section 1 to add three new

definitions into its Rulebook. These definitions are utilized in technical documents

issued by the Exchange and will provide an ease of reference for understanding these

terms. Specifically, Chapter I, Section 1(a)(70) would define an account number as a

number assigned to a Participant. Participants may have more than one account number.

Chapter I, Section 1(a)(71) would define a badge as an account number, which may

contain letters and/or numbers, assigned to BX Market Makers. A BX Market Maker

account may be associated with multiple badges. Finally, Chapter I, Section 1(a)(72)

would define a mnemonic as an acronym comprised of letters and/or numbers assigned to

Participants. A Participant account may be associated with multiple mnemonics.

        Risk Protections

        Order Price Protection

        The Exchange proposes a minor amendment to Chapter VI, Section 18(1) to add

punctuation and "OPP" at the beginning of that sentence to conform the text to the

remainder of the rule. The Exchange proposes to remove the example within Rule

Chapter VI, Section 18(1)(B)(i) which states, "For example, if the Reference BBO on the

offer side is $1.10, an order to buy options for more than $1.65 would be rejected.

Similarly, if the Reference BBO on the bid side is $1.10, an order to sell options for less than $0.55 will be rejected." The Exchange also proposes to remove the example within Chapter VI, Section 18(1)(B)(ii) which states, "For example, if the Reference BBO on the offer side is $1.00, an order to buy options for more than $2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to $1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit." The Exchange notes that while the examples remain accurate, the Exchange proposes to remove the text to conform the rule text to other risk protections. The Exchange does not believe it is necessary to have these examples within the rule text.

Market Order Spread Protection

The Exchange proposes to amend the Market Order Spread Protection Rule in Chapter VI, Section 18(a)(2) to permit BX to establish different thresholds for one or more series or classes of options similar to Phlx.[4] The Exchange desires, similar to Phlx, to be permitted the flexibility to allow it to determine a threshold suitable for each series or class of option. The Exchange's current rule provides no discretion to permit different thresholds for one or more series or classes of options. By adding this rule text, the Exchange proposes to permit one or more series or classes of options to set a different threshold, which the Exchange would announce via an Options Trader Alert, similar to Phlx. The Exchange desires to conform this protection to Phlx so that it could set the same threshold across affiliated markets. The Phlx Rule Change provided that the $5

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[4]   Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018)(SR-Phlx-2018-32). Footnote 11 of this filing provides that Exchange may establish differences other than the referenced threshold for one or more series or classes of options.

threshold is appropriate because it seeks to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. Further the Exchange noted that this protection will bolster the normal resilience and market behavior that persistently produces robust reference prices. This feature should create a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute. The Exchange notes that those goals remain consistent with the Exchange's goals today for this risk feature. The Exchange would establish different thresholds for one or more series or classes of options if it believed that the threshold should differ to retain these goals.

Anti-Internalization

The Exchange proposes to add a new sentence to Anti-Internalization Rule at Chapter VI, Section 18(c)(1) to provide that Anti-Internalization functionality shall not apply in any auction. This is the current practice today. With respect to an auction,[5] the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA[6] due to the semi-random manner in which trades are matched. Also, the Exchange notes that with respect to entering quotes in an auction, a Market Maker could

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[5]   PRISM is the Exchange's Price Improvement Auction. See BX Rules at Chapter VI, Section 9.

[6]   AIQ is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act ("ERISA") that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. It can also assist Market Makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm when performing the same market making function.

not start an auction in symbols in which they are assigned. With respect to orders,

Market Makers can only commence a PRISM in a non-assigned symbol.[7] It is not

common for a Market Maker to commence such an auction. Finally, the Exchange notes

that Nasdaq ISE, LLC Rule 714(b)(3)(A) contains the same constraint in that it does not

apply the Anti-Internalization protection in any auction.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Chapter VI, Section 18(c)(2)

from "Automated Removal of Quotes" to "Quotation Adjustments" to conform the title

across Nasdaq markets.

b.   <u>Statutory Basis</u>

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act,[8] in general, and furthers the objectives of Section 6(b)(5) of the Act,[9] in particular,

in that it is designed to promote just and equitable principles of trade and to protect

investors and the public interest by adding greater transparency to the Exchange's rules.

The Exchange's proposal to add definitions to Chapter I, Section 1 will bring greater

clarity to the Anti-Internalization functionality and to the Rulebook. Amendments to

remove examples from the OPP rule text will conform the rule text to other rules. The

Exchange believes that it is unnecessary to have examples in the rule text. Adding the

word "trading" before the word "halt" within the Market Order Spread Protection rule

text will bring conformity to Chapter VI, Section 18.

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[7]   Specialists and ROTs can only quote in symbols in which they are assigned.

[8]   15 U.S.C. 78f(b).

[9]   15 U.S.C. 78f(b)(5).

The Exchange's proposal to expand the Market Order Spread Protection permits the Exchange to establish different thresholds for one or more series or classes of options similar to Phlx. The Exchange desires this flexibility to allow it, similar to Phlx,[10] to determine a threshold suitable for each series or class of option. The Exchange believes that expanding this capability is consistent with the Act because it would allow the Exchange to consider thresholds for Market Order Spread Protection at a more granular level, per series or class, to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. The Exchange intends that this risk protection would bolster the normal resilience and market behavior that persistently produces robust reference prices, while creating a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute.

The Exchange's proposal to make clear that the Anti-Internalization functionality will not apply in any auction will also bring greater transparency to the rules and the limitation of this functionality. With respect to an auction,[11] the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA[12] due to the semi-random manner in which trades are matched. Also, the Exchange notes that with respect to entering quotes in an auction, a Market Maker could not start an auction in symbols in

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[10]   See note 4 above.

[11]   PIXL is the Exchange's Price Improvement XL auction. See Phlx Rule 1087.

[12]   See note 6 above.

which they are assigned. With respect to orders, Market Makers can only commence a

PRISM in a non-assigned symbol. It is not common for a Market Maker to commence

such an auction.

Finally, the Exchange's proposal to amend the title of Chapter VI, Section

18(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" should better

describe the rule and conform the title to other Nasdaq affiliate markets. The proposals

noted herein are consistent with the Act because they provide more detail and

transparency to the Exchange's rules noted herein to the benefit of market participants.

 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 Exchange believes that the proposed amendments do not impose an undue

burden on competition because the definitions and amendments to conform the rule text

will provide greater clarity as to the meaning of those terms. Removing examples from

the OPP rule text does not impose an undue burden on competition because this text is

not necessary within the rule text. Adding the word "trading" before the word "halt"

within the Market Order Spread Protection rule text will bring conformity to Chapter VI,

Section 18. The Exchange's proposal to expand the Market Order Spread Protection to

permit the Exchange to establish different thresholds for one or more series or classes of

options, similar to Phlx, would apply uniformly to all market participants.

The Exchange's proposal to make clear that the Anti-Internalization functionality

will not apply in any auction will also bring greater transparency to the rules and the

limitation of this functionality. With respect to an auction, the Exchange notes that Anti-

Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA[13] due to the semi-random manner in which trades are matched. Finally, the Exchange's proposal to amend the title of Rule Chapter VI, Section 18(c)(2) is non-substantive.

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)(iii)[14] of the Act and Rule 19b-4(f)(6) thereunder[15] 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 designate if consistent with the protection of investors and the public interest.

The Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because adding definitions to Chapter I,

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[13]   See note 6 above.

[14]   15 U.S.C. 78s(b)(3)(A)(iii).

[15]   17 CFR 240.19b-4(f)(6).

Section I, and within the Anti-Internalization Rule, removing examples from OPP, and

adding the word "trading" before the word "halt" within the Market Order Spread

Protection rule text will bring greater consistency and transparency to the Exchange's

Rules. The Exchange's proposal to expand the Market Order Spread Protection to permit

the Exchange to establish different thresholds for one or more series or classes of options

is similar to Phlx. With respect to noting that Anti-Internalization functionality will not

apply in any auction, this amendment serves to provide market participants with greater

information as to the manner in which this protection is applied. With respect to an

auction, the Exchange notes that Anti-Internalization functionality is difficult to apply

during auctions, and there is limited benefit in doing so. There is limited benefit because,

generally speaking, auctions do not raise the same policy concerns for wash sales and

ERISA[16] due to the semi-random manner in which trades are matched. Finally, renaming

Chapter VI, Section 18(c)(2) is non-substantive. The proposed rule change does not

impose any significant burden on competition because the Exchange is adding greater

clarity to its rules. Memorializing the current practice for Anti-Internalization

functionality, to provide that it will not apply in any auction, serves to provide market

participants with greater information as to the manner in which this protection is applied.

With respect to auctions, a Market Maker could not start an auction in symbols in which

they are assigned. Granting the Exchange the proposed flexibility with respect to the

Market Order Spread Protection rule will provide it with flexibility to determine a

threshold suitable for each series or class of option for all Participants. The remainder of

the rule changes bring greater clarity to the rules.

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[16]   See note 6 above.

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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings 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 operative delay to immediately reflect the definitions, remove inconsistent language within the rulebook as well as the clarifying changes which further expand on the rule relating to order protections. The Exchange believes that the proposed rule changes will bring greater transparency to the risk protections offered by BX. The Exchange believes that the risk protections offered by the Exchange will continue to protect investors and the public interest because the Exchange is memorializing additional information concerning these protections to provide participants with greater information. The risk protections serve to protect investors and the general public by offering market participants the ability to control certain risks when submitting quotes and orders on Phlx.

Also, similar to Phlx, the Exchange desires to amend its rule to permit it flexibility in offering its Market Order Spread Protection. Finally, the Exchange proposes to provide greater transparency with respect to limitations on Anti-Internalization in auctions.

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

The proposed amendment to the Market Order Spread Protection Rule is based on a Phlx rule change.[17] Also, Nasdaq ISE, LLC Rule 714(b)(3)(A) does not apply the Anti-Internalization protection in any auction.

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 Change for publication in the Federal Register.

5.   Text of the proposed rule change.

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[17]   See note 4 above.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-BX-2018-050)

October __, 2018

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Add Definitions to Chapter I, Section 1, Titled
General Provisions and also Amend Chapter VI, Section 18, Titled, Risk Protections

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 18, 2018, Nasdaq 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 to Chapter I, Section 1, titled "General

Provisions" and also amend Chapter VI, Section 18, titled, "Risk Protections."

The text of the proposed rule change is available on the Exchange's Website at

http://nasdaqbx.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

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

[2]   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 purpose of this rule change is to adopt certain definitions within Chapter I,

Section 1, titled "General Provisions" and also amend Chapter VI, Section 18, titled,

"Risk Protections." Each change is described in more detail below.

Definitions

The Exchange proposes to amend Chapter I, Section 1 to add three new

definitions into its Rulebook. These definitions are utilized in technical documents

issued by the Exchange and will provide an ease of reference for understanding these

terms. Specifically, Chapter I, Section 1(a)(70) would define an account number as a

number assigned to a Participant. Participants may have more than one account number.

Chapter I, Section 1(a)(71) would define a badge as an account number, which may

contain letters and/or numbers, assigned to BX Market Makers. A BX Market Maker

account may be associated with multiple badges. Finally, Chapter I, Section 1(a)(72)

would define a mnemonic as an acronym comprised of letters and/or numbers assigned to

Participants. A Participant account may be associated with multiple mnemonics.

Risk Protections

Order Price Protection

The Exchange proposes a minor amendment to Chapter VI, Section 18(1) to add

punctuation and "OPP" at the beginning of that sentence to conform the text to the

remainder of the rule. The Exchange proposes to remove the example within Rule

Chapter VI, Section 18(1)(B)(i) which states, "For example, if the Reference BBO on the

offer side is $1.10, an order to buy options for more than $1.65 would be rejected.

Similarly, if the Reference BBO on the bid side is $1.10, an order to sell options for less

than $0.55 will be rejected." The Exchange also proposes to remove the example within

Chapter VI, Section 18(1)(B)(ii) which states, "For example, if the Reference BBO on the

offer side is $1.00, an order to buy options for more than $2.00 would be rejected.

However, if the Reference BBO of the bid side of an incoming order to sell is less than or

equal to $1.00, the OPP limits set forth above will result in all incoming sell orders being

accepted regardless of their limit." The Exchange notes that while the examples remain

accurate, the Exchange proposes to remove the text to conform the rule text to other risk

protections. The Exchange does not believe it is necessary to have these examples within

the rule text.

Market Order Spread Protection

The Exchange proposes to amend the Market Order Spread Protection Rule in

Chapter VI, Section 18(a)(2) to permit BX to establish different thresholds for one or

more series or classes of options similar to Phlx.[3] The Exchange desires, similar to Phlx,

to be permitted the flexibility to allow it to determine a threshold suitable for each series

or class of option. The Exchange's current rule provides no discretion to permit different

thresholds for one or more series or classes of options. By adding this rule text, the

Exchange proposes to permit one or more series or classes of options to set a different

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[3]   Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7,
        2018)(SR-Phlx-2018-32). Footnote 11 of this filing provides that Exchange may
        establish differences other than the referenced threshold for one or more series or
        classes of options.

threshold, which the Exchange would announce via an Options Trader Alert, similar to

Phlx. The Exchange desires to conform this protection to Phlx so that it could set the

same threshold across affiliated markets. The Phlx Rule Change provided that the $5

threshold is appropriate because it seeks to ensure that the displayed bid and offer are

within reasonable ranges and do not represent erroneous prices. Further the Exchange

noted that this protection will bolster the normal resilience and market behavior that

persistently produces robust reference prices. This feature should create a level of

protection that prevents Market Orders from entering the Order Book outside of an

acceptable range for the Market Order to execute. The Exchange notes that those goals

remain consistent with the Exchange's goals today for this risk feature. The Exchange

would establish different thresholds for one or more series or classes of options if it

believed that the threshold should differ to retain these goals.

Anti-Internalization

The Exchange proposes to add a new sentence to Anti-Internalization Rule at

Chapter VI, Section 18(c)(1) to provide that Anti-Internalization functionality shall not

apply in any auction. This is the current practice today. With respect to an auction,[4] the

Exchange notes that Anti-Internalization functionality is difficult to apply during

auctions, and there is limited benefit in doing so. There is limited benefit because,

generally speaking, auctions do not raise the same policy concerns for wash sales and

ERISA[5] due to the semi-random manner in which trades are matched. Also, the

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[4]   PRISM is the Exchange's Price Improvement Auction. <u>See</u> BX Rules at Chapter
        VI, Section 9.

[5]   AIQ is designed to assist market participants in complying with certain rules and
        regulations of the Employee Retirement Income Security Act ("ERISA") that
        preclude and/or limit managing broker-dealers of such accounts from trading as

Exchange notes that with respect to entering quotes in an auction, a Market Maker could

not start an auction in symbols in which they are assigned. With respect to orders,

Market Makers can only commence a PRISM in a non-assigned symbol.[6] It is not

common for a Market Maker to commence such an auction. Finally, the Exchange notes

that Nasdaq ISE, LLC Rule 714(b)(3)(A) contains the same constraint in that it does not

apply the Anti-Internalization protection in any auction.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Chapter VI, Section 18(c)(2)

from "Automated Removal of Quotes" to "Quotation Adjustments" to conform the title

across Nasdaq markets.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act,[7] in general, and furthers the objectives of Section 6(b)(5) of the Act,[8] in particular,

in that it is designed to promote just and equitable principles of trade and to protect

investors and the public interest by adding greater transparency to the Exchange's rules.

The Exchange's proposal to add definitions to Chapter I, Section 1 will bring greater

clarity to the Anti-Internalization functionality and to the Rulebook. Amendments to

remove examples from the OPP rule text will conform the rule text to other rules. The

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principal with orders generated for those accounts. It can also assist Market
Makers in reducing trading costs from unwanted executions potentially resulting
from the interaction of executable buy and sell trading interest from the same firm
when performing the same market making function.

[6]   Specialists and ROTs can only quote in symbols in which they are assigned.

[7]   15 U.S.C. 78f(b).

[8]   15 U.S.C. 78f(b)(5).

Exchange believes that it is unnecessary to have examples in the rule text. Adding the
word "trading" before the word "halt" within the Market Order Spread Protection rule
text will bring conformity to Chapter VI, Section 18.

The Exchange's proposal to expand the Market Order Spread Protection permits
the Exchange to establish different thresholds for one or more series or classes of options
similar to Phlx. The Exchange desires this flexibility to allow it, similar to Phlx,[9] to
determine a threshold suitable for each series or class of option. The Exchange believes
that expanding this capability is consistent with the Act because it would allow the
Exchange to consider thresholds for Market Order Spread Protection at a more granular
level, per series or class, to ensure that the displayed bid and offer are within reasonable
ranges and do not represent erroneous prices. The Exchange intends that this risk
protection would bolster the normal resilience and market behavior that persistently
produces robust reference prices, while creating a level of protection that prevents Market
Orders from entering the Order Book outside of an acceptable range for the Market Order
to execute.

The Exchange's proposal to make clear that the Anti-Internalization functionality
will not apply in any auction will also bring greater transparency to the rules and the
limitation of this functionality. With respect to an auction,[10] the Exchange notes that
Anti-Internalization functionality is difficult to apply during auctions, and there is limited
benefit in doing so. There is limited benefit because, generally speaking, auctions do not

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[9]   See note 4 above.

[10]   PIXL is the Exchange's Price Improvement XL auction. See Phlx Rule 1087.

raise the same policy concerns for wash sales and ERISA[11] due to the semi-random

manner in which trades are matched. Also, the Exchange notes that with respect to

entering quotes in an auction, a Market Maker could not start an auction in symbols in

which they are assigned. With respect to orders, Market Makers can only commence a

PRISM in a non-assigned symbol. It is not common for a Market Maker to commence

such an auction.

Finally, the Exchange's proposal to amend the title of Chapter VI, Section

18(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" should better

describe the rule and conform the title to other Nasdaq affiliate markets. The proposals

noted herein are consistent with the Act because they provide more detail and

transparency to the Exchange's rules noted herein to the benefit of market participants.

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 Exchange believes that the proposed amendments do not impose an undue

burden on competition because the definitions and amendments to conform the rule text

will provide greater clarity as to the meaning of those terms. Removing examples from

the OPP rule text does not impose an undue burden on competition because this text is

not necessary within the rule text. Adding the word "trading" before the word "halt"

within the Market Order Spread Protection rule text will bring conformity to Chapter VI,

Section 18. The Exchange's proposal to expand the Market Order Spread Protection to

permit the Exchange to establish different thresholds for one or more series or classes of

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[11]   See note 6 above.

options, similar to Phlx, would apply uniformly to all market participants.

The Exchange's proposal to make clear that the Anti-Internalization functionality

will not apply in any auction will also bring greater transparency to the rules and the

limitation of this functionality. With respect to an auction, the Exchange notes that Anti-

Internalization functionality is difficult to apply during auctions, and there is limited

benefit in doing so. There is limited benefit because, generally speaking, auctions do not

raise the same policy concerns for wash sales and ERISA[12] due to the semi-random

manner in which trades are matched. Finally, the Exchange's proposal to amend the title

of Rule Chapter VI, Section 18(c)(2) is non-substantive.

> 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[13] and subparagraph (f)(6) of Rule 19b-4

thereunder.[14]

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[12]   See note 6 above.

[13]   15 U.S.C. 78s(b)(3)(A)(iii).

[14]   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

At any time within 60 days of the filing of the proposed rule change, the

Commission summarily may temporarily suspend such rule change if it appears to the

Commission that such action is necessary or appropriate in the public interest, for the

protection of investors, or otherwise in furtherance of the purposes of the Act. If the

Commission takes such action, the Commission shall institute proceedings 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. Please include File Number SR- BX-

  2018-050 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange

  Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR- BX-2018-050. 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

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proposed rule change, or such shorter time as designated by the Commission. The
Exchange has satisfied this requirement.

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-2018-050 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.[15]

Eduardo A. Aleman
Assistant Secretary

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[15]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Rules of Nasdaq BX

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Chapter I General Provisions
Sec. 1 Definitions

(a) With respect to these BX Options Rules, the following terms shall have the meanings specified in this Section 1. A term defined elsewhere in the Rules of the Exchange shall have the same meaning with respect to this Chapter I, unless otherwise defined below.

(70) An "**account number**" shall mean a number assigned to a Participant. Participants may have more than one account number.

(71) A "**badge**" shall mean an account number, which may contain letters and/or numbers, assigned to BX Market Makers. A BX Market Maker account may be associated with multiple badges.

(72) A "**mnemonic**" shall mean an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics.

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Chapter VI Trading Systems

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Sec. 18 Risk Protections
(a) The following are order risk protections on BX:

  (1) **Order Price Protection ("OPP").** OPP is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to market orders or Intermarket Sweep Orders.

  (A) No change.

  (B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

   (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt. [For example, if the Reference BBO on the offer side is $1.10, an order to buy

options for more than $1.65 would be rejected. Similarly, if the Reference BBO on the bid side is $1.10, an order to sell options for less than $0.55 will be rejected.]

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt. [For example, if the Reference BBO on the offer side is $1.00, an order to buy options for more than $2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to $1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit.]

(2) **Market Order Spread Protection**. System Orders that are Market Orders will be rejected if the best of the NBBO and the internal market BBO (the "Reference BBO") is wider than a preset threshold at the time the order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.

(b) No change.

(c) The following are quote risk protections on BX:

(1) **Anti-Internalization.** Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution. This functionality shall not apply in any auction.

(2) [**Automated Removal of Quotes and Orders**]**Quotation Adjustments.**

(A) – (G) No change.

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