

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"/>
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**Description**

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

Amend BXs Rule Regarding Orders and 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="Principal 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="09/26/2019"/>	<input type="text" value="Global Chief Legal &amp; Policy Officer"/>
By <input type="text" value="Edward S. Knight"/>	<input type="text"/>
(Name *)	<input type="text" value="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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of 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”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend BX Rules at Chapter VI, Section 6, “Acceptance of Quotes and Orders,” Chapter VI, Section 7, “Entry and Display Orders,” Chapter VI, Section 10, “Book Processing,” Chapter VI, Section 21, “Order and Quote Protocols,” Chapter VII, Section 5, “Obligations of Market Makers,” and Chapter VII, Section 12, “Order Exposure Requirements.” The Exchange proposes to relocate certain current rules to new Rules Chapter VI, Section 22, titled “Kill Switch” and 23, titled “Detection of Loss of Communication.”

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 of the Exchange (the “Board”) on September 26, 2018. Exchange staff will advise the Board of any action taken

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

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

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

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 Chapter VI, Section 6, "Acceptance of Quotes and Orders," Chapter VI, Section 7, "Entry and Display Orders," Chapter VI, Section 10, "Book Processing," Chapter VI, Section 21, "Order and Quote Protocols," Chapter VII, Section 5, "Obligations of Market Makers," and Chapter VII, Section 12, "Order Exposure Requirements." The Exchange proposes to relocate certain current rules to new Rules Chapter VI, Section 22, titled "Kill Switch" and 23, titled "Detection of Loss of Communication." Each rule change will be discussed in greater detail below.

Chapter VI, Section 6 Acceptance of Quotes and Orders

Currently, Chapter VI, Section 6 is titled "Acceptance of Quotes and Orders." The Exchange proposes to retitle Chapter VI, Section 6 as "Entry and Display of Quotes." The Exchange proposes to add an (a) before the first paragraph. The Exchange is removing references to orders in this Rule because it also proposes to adopt a new Chapter VI, Section 7, titled "Entry and Display of Orders" to describe requirements for order entry.

The Exchange proposes to add a new section (b) to Chapter VI, Section 6 to describe the current requirements and conditions for submitting quotes. These

requirements reflect the current System operation today. The Exchange proposes to memorialize the various requirements for the submission of quotes into the System for greater transparency. The Exchange proposes to provide at proposed Chapter VI, Section 6(b), “Quotes are subject to the following requirements and conditions:”. The Exchange proposes to add at Chapter VI, Section 6(b)(1) that “Market Makers may generate and submit option quotations.” Current Chapter VII, Section 6 makes clear that Market Makers may submit quotes,<sup>3</sup> however the Exchange proposes to create a list of rules related to quote submission within this rule for ease of reference. The Exchange proposes to provide at proposed Chapter VI, Section 6(b)(2) that “The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.” The Exchange notes that all quotes today are time-stamped for purposes of processing quotes. Proposed Rule Chapter VI, Section 6(b)(3) states that “Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.” The Exchange believes that this information will provide Market Makers with information on submitting a quote. The Exchange notes that bid or offer may be a “0,” however a price is required to be entered for both the bid and offer to be entered into the System. Further, the Exchange proposes at Chapter VI, Section 6(b)(4) to provide clarity for entering quotes and proposes to specify, “The System accepts quotes beginning at a time specified by the Exchange and

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<sup>3</sup> Chapter VII, Section 6(b) provides, “A Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX Options must enter an offer (bid).”

communicated on the Exchange's website."<sup>4</sup> The Exchange believes that this information will bring greater transparency to the Rulebook with respect to limitations for submitting quotations into the System.

The Exchange proposes a provision regarding firm quote within proposed Rule Chapter VI, Section 6(b)(5):

**Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.

BX Chapter VI, Section 6(b)(5) describes Firm Quote for purposes of quote submission.

The Exchange proposes to memorialize within its Rules the requirement for the dissemination of quotations pursuant to Reg NMS.<sup>5</sup> The Exchange is proposing to add the above rule text to provide context as to this restriction for submitting quotes. The

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<sup>4</sup> The system settings page is located: [http://www.nasdaqtrader.com/content/technicalsupport/BXOptions\\_SystemSettings.pdf](http://www.nasdaqtrader.com/content/technicalsupport/BXOptions_SystemSettings.pdf).

<sup>5</sup> 17 CFR §242.602.

Exchange proposes to make clear the manner in which quote relief will occur.

Specifically, this proposed rule text indicates the manner in which a determination for quote relief is made. Further, the rule notes the Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Also, when relief is no longer available, such quotations will be included in the calculation of NBBO for such options. The Exchange notes how the determination is made that relief is no longer available. The proposed rule text adds greater context to the manner in which Firm Quote relief is applied. This rule text represents the current practice.

Similarly, the Exchange proposes to provide the following proposed new Chapter VI, Section 6(b)(6):

**Trade-Through Compliance and Locked or Crossed Markets.** A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

Today, quotations may not be executed against prices that trade-through an away market as provided for in the Options Order Protection and Locked/Crossed Market Plan which is also described within Chapter XII, Options Order Protection and Locked and Crossed Market Rules. Also, quotations may not lock or cross an away market. The

repricing is provided for today within BX Chapter VI, Section 7(b)(3)(C).<sup>6</sup> By stating this limitation in the rule, Market Makers will have greater clarity as to this limitation. Further, the Exchange is making clear that a quote that would cause a locked or crossed market violation or would cause a trade-through violation will be re-priced. The Exchange would display the quote at one minimum price variation (“MPV”) above (for offers) or below (for bids) the national best price. Repricing quotes is consistent with the Act because the Exchange is not permitted to lock or cross an away market’s quote or order. The Exchange reprices the quotes one MPV inferior to cause the displayed price to reflect the available market on BX.

Finally, the Exchange proposes at Chapter VI, Section 6(b)(7) to provide, “Quotes submitted to the System are subject to the following: minimum increments provided for in Chapter VI, Section 5 and risk protections provided for in Chapter VI, Section 18.” The Exchange is noting herein the manner in which a quote may be rejected by the System to provide market participants with expectations as to the interplay among the various BX Rules. Specifically, if the Market Maker does not submit a quotation compliant with Chapter VI, Section 5, the quote will not be accepted by the System because market participants are required to abide by Chapter VI, Section 5 which describes the increments with which options series are to be quoted. Chapter VI, Section 18 provides a list of all protections applicable to quotes that may be rejected. The Exchange believes that this rule will provide Options Participants with requirements and

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<sup>6</sup> An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.



conditions for submitting quotations and provide transparency as to limitations that cause a quote to be rejected.

The Exchange proposes to provide at Chapter VI, Section 6(c), “Quotes will be displayed in the System as described in Chapter VI, Section 19.” Chapter VI, Section 19, titled “Data Fees and Trade Information” provides for the available feeds that Options Participants may access on the Exchange. This list represents the available data feeds and the content of those data feeds which are offered today by BX.

The amendments to BX Chapter VI, Section 6 create a list of all the requirements and conditions for submitting quotes on BX within one rule is consistent with the Act because it will provide greater transparency to market participants of the applicable requirements. Further, this proposal will make the current rule clear and understandable for market participants thereby protecting investors and the general public. The Exchange notes that while some of these requirements appear in other rules, for ease of reference the requirements are located within a single rule with this proposal. The proposal reflects the Exchange’s current practice with respect to quoting requirements. This proposal will conform this Rule to other Nasdaq affiliated markets filing similar rules.<sup>7</sup> The Exchange’s proposal is intended to provide greater information with respect to Firm Quote within new BX Chapter VI, Section 6(b)(5) and regarding trade-through and locked and crossed markets Section 6(b)(6). The addition of this rule text is consistent with the Act because the Exchange is adding detail

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<sup>7</sup> Nasdaq Phlx, Nasdaq ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC have similar rules. See Securities Exchange Act Release Nos. 86286 (July 2, 2019), 84 FR 32794 (July 9, 2019) (SR-Phlx-2019-25) and SR-ISE-2019-23, SR-GEMX-2019-13 and SR-MRX-2019-20. The ISE, GEMX and MRX rule changes are filed on September 17, 2019, but they are not yet published.

regarding the method in which quotes which are firm or locked and crossed will be handled in the System. The notifications for Firm Quote are made clear with the proposed rule text. The Exchange believes that it is consistent with the Act to specify when quotes are firm and the handling of such quotes by the System for the protection of investors and the general public. The clarity is designed to promote just and equitable principles of trade by notifying all participants engaged in market making of potential outcomes. Today, quotations may not be executed against at prices that trade-through an away market. Also, quotations may not lock or cross an away market. The repricing of quotations is consistent with the Act because repricing prevents the Exchange from disseminating a price which locks or crosses another market. BX is required to avoid displaying a quotation that would lock or cross a quotation of another market center at the time it is displayed. Preventing inferior prices from displaying perfects the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange proposes to delete the rule text at Chapter VI, Section 6(a)(1) and (2), which states:

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

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

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

The Exchange notes that all order types listed in Chapter VI, Section 1(e) may be entered on BX. All order types are executable against marketable contra-side orders in the System. The System will not permit an order to execute that is not marketable. BX has described in this proposal that it would not trade-through an away market. All Time in Force designations noted in Chapter VI, Section 1(g) are available to market participants entering orders on BX. The Exchange believes that the information provided in Chapter VI, Section 6(a)(1) and (2) is also covered within Chapter VI, Section 1 and therefore proposes to delete this rule text.

The Exchange proposes to relocate Chapter VI, Section 6(a)(3), relating to zero-bid, and 6(b), relating to routing, into Chapter VI, Section 10(5) and (6). The Exchange believes that this information should be described within the rule describing allocation. Chapter VI, Section 6(c), which is reserved, is being deleted. The Exchange proposes to relocate Chapter VI, Section 6(d), related to the BX Options Kill Switch, to new Chapter VI, Section 22. The Exchange proposes to relocate Chapter VI, Section 6(e), related to Detection of Loss of Communication, to new Chapter VI, Section 23. The Exchange believes that these two topics should be in separate rules for ease of locating those rules. The Exchange is not proposing to amend the Kill Switch or Detection of Loss of Communication rules; this rule change is non-substantive. The Exchange proposes to update internal cross-references.

#### Chapter VI, Section 7, Entry and Display Orders

The Exchange proposes to amend Chapter VI, Section 7 titled “Entry and Display Orders.” The Exchange proposes to retitle this rule, “Entry and Display of Orders.” Similar to Chapter VI, Section 6 for quotes, the Exchange proposes this new rule to

describe the current requirements and conditions for entering orders. The Exchange notes that the requirements provided for within this rule represent the current practice. The purpose of Chapter VI, Section 7 is to memorialize this information within a single rule.

The Exchange proposes to amend Chapter VI, Section 7(a) to remove the title, “Entry of Orders-”. The Exchange proposes to memorialize the manner in which orders may be submitted to the System to add more detail to its rules. The Exchange proposes to amend Chapter VI, Section 7(a)(1) to remove and unnecessary “a” and also to remove the sentence which provides, “Each order shall indicate the amount of Reserve Size (if applicable).” No order type on BX has a Reserve Size.<sup>8</sup> BX no longer has any order types with non-displayed interest; previously, BX offered Discretionary Orders and Reserve Orders on BX, but both have been eliminated. The Exchange proposes to adopt a new Chapter VI, Section 7(a)(2) which provides, “The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange’s web site.”<sup>9</sup> The Exchange proposes to renumber current Chapter VI, Section 7(a)(2) as (a)(3). The Exchange proposes to renumber current Chapter VI, Section 7(a)(3) as (a)(4) and amend the rule which provides, “Orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close” to “Orders submitted to the System are subject to minimum increments provided for in Chapter VI, Section 5, risk protections within Chapter VI, Section 18 and the restrictions of order types within Chapter VI, Section 21(b). Orders

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<sup>8</sup> See Securities Exchange Act Release No. 65873 (December 2, 2011), 76 FR 76786 (December 8, 2011) (SR-NASDAQ-2011-164).

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

may execute at multiple prices.” The Exchange is proposing to conform order entry rules across its Nasdaq Affiliated markets, where applicable. The Exchange proposed the time during which the System accepts orders within Chapter VI, Section 7(a)(2) and therefore this rule text is not necessary as the proposed rule describes time for accepting orders elsewhere. All orders must adhere to other rule requirements such as minimum increments, risk protection rules and order types. Similar to the rule text for quotes, orders are currently subject to the minimum increment requirements in Chapter VI, Section 5, the risk protections for orders which are listed within current Chapter VI, Section 18 as well as the restrictions of order types within Chapter VI, Section 21(b). This rule provides a list of other requirements which may impact the execution of an order. Finally, orders may execute at multiple prices. This rule provides a list of other requirements which may impact the execution of an order.

The Exchange proposes to add new rule at Chapter VI, Section 7(a)(5) which states, “Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.” The rule text of new Chapter VI, Section 7(a)(5) is similar to Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”) Options 3, Section 4(b). Trades may be nullified today by agreement of the parties. The Exchange believes that it is consistent with the Act to permit parties to agree to a nullification provided the nullification does not violate other

exchange rules. The Exchange notes that parties may not agree to a mutual agreement for purposes that would cause another rule to be violated. The Exchange believes that it is consistent with the Act and protection of investors and general public to make clear the expected behavior with respect to nullifications.

The Exchange proposes to adopt new rule text at Chapter VI, Section 7(b) is similar to rule text at to ISE, GEMX and MRX Options 3, Section 15(a). This proposed rule provides,

**NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Rule Chapter XII, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Chapter XII, Section 1(11)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Chapter XII, Section 1(12)).

The Exchange believes that although BX Rules<sup>10</sup> make clear that orders may not execute at prices inferior to the NBBO, this rule text will provide that limitation in this proposed list of limitations for ease of reference. The Exchange notes that this NBBO Protection applies to orders and therefore is being discussed within proposed Chapter VI, Section 7 which applies to all Options Participants. In contrast, Chapter VI, Section 6, which applies to quotes entered by Market Makers, describes the Firm Quote protections and the interplay of NBBO with respect to quotes. Trade-Through is described in both Chapter VI, Section 6 and 7.

The Exchange proposes to state at Chapter VI, Section 7(c), “The System automatically executes eligible orders using the Exchange’s displayed best bid and offer (“BBO”).” This rule seeks to define the Exchange’s best bid and offer as the “BBO.” On

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<sup>10</sup> Intermarket Sweep Orders (as defined in Rule Chapter XII, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Chapter XII, Section 1(11)).

BX, eligible orders will execute at the best price available, the BBO. The Exchange believes that this information will provide Options Participants with additional information as some markets have non-displayed order types and BX has no non-displayed order types.

The Exchange proposes to relocate BX Chapter VI, Section 7(b)(3)(C) to Chapter VI, Section 7(d).

The Exchange proposes to add a sentence at Chapter VI, Section 7(e) which provides, “Orders will be displayed in the System as described in Chapter VI, Section 19.” Chapter VI, Section 19 contains information on data feeds and the information that is provided. This provision is similar to Chapter VI, Section 6(c).

The Exchange proposes to delete current Chapter VI, Section 7(b)(1)-(3) which provides,

(1) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed.

(2) Best Priced Order Display - For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.

(3) Exceptions—The following exceptions shall apply to the display parameters set forth in paragraphs (1) and (2) above:

The display of orders as well as the text relating to System Book Feed are being deleted because data feeds are described in other rules.<sup>11</sup> The Exchange believes this information is unnecessary as the data feeds are specific as to the content of the displayed information. The Exchange is also proposing to remove the rule text related to Best Priced Order Display as this information is described within Chapter XII, Options Order

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<sup>11</sup> See BX Chapter VI, Section 19, “Data Feeds and Trade Information.”

Protection and Locked and Crossed Markets. Specifically, BX Chapter XII, Section 1(18) which describes a Protected Bid and Offer and the manner in which they are disseminated to the OPRA Plan. The Exchange proposes to delete Chapter VI, Section 7(b)(3) as well as subsections (A), which is currently reserved. Current BX Chapter VI, Section 7(b)(3) notes exceptions to the display parameters. As noted (A) is reserved and as mentioned herein (B) and (C) are relocated within Section 7.

The Exchange's proposal to adopt a new Chapter VI, Section 7, "Entry and Display of Orders" and describe the current requirements and conditions for entering orders, similar to proposed changes to Chapter VI, Section 6 for quotes is consistent with the Act because it will provide transparency as to manner in which orders may be submitted to the System. The Exchange's new rule reflects the current requirements for submitting orders into the System. Similar to proposed Chapter VI, Section 6, the Exchange proposes to memorialize requirements and limitations within one rule for ease of reference.

#### Chapter VI, Section 10, Book Processing

As noted above, the Exchange is relocating rule text from current Chapter VI, Section 6(a)(3) and 6(b) to Chapter VI, Section 10(5) and (6). The Exchange also proposes to renumber current Chapter VI, Section 10(5) as "(7)".

#### Chapter VI, Section 21, Order and Quote Protocols

The Exchange proposes to amend Chapter VI, Section 21(a)(i)(B) to add the following sentence to Specialized Quote Feed ("SQF"), "Market Makers may only enter interest into SQF in their assigned options series." The Exchange notes that today



Market Makers may utilize SQF to quote only in their assigned options series.<sup>12</sup> This proposed rule text is consistent with the Act because it will add greater clarity to the current rule for the protection of investors and the public interest.

Chapter VII, Section 5, Obligations of Market Makers

The Exchange proposes to add a new Chapter VII, Section 5(d) to describe the manner in which Market Makers may enter orders on BX. There is no rule currently describing order entry by Market Makers. The Exchange proposes to memorialize the current practice by providing “Market Makers may enter all order types defined in Chapter VI, Section 1(e) in the options classes to which they are appointed and non-appointed.” This rule will provide Market Makers with information as to the types of orders that may be entered on BX.

Chapter VII, Section 12, Order Exposure Requirements

The Exchange proposes to amend current Chapter VII, Section 12, titled “Order Exposure Requirements.” The Exchange proposes to amend the title to “Limitations on Order Entry” to conform the rule to other Nasdaq affiliate market rules.<sup>13</sup>

The Exchange proposes to amend Chapter VII, Section 12(a) to add the title “Limitations on Principal Transactions.” This change is not substantive. The Exchange proposes to amend Chapter VII, Section 12(b) to re-number it as (1) and replace the words “Section 12” with “This Rule.” The Exchange proposes to add a new Chapter VII, Section 12(b) similar to Phlx Rule 1097(a). The rule text would provide,

**Limit Orders.** Options Participants shall not enter Public Customer limit orders into the System in the same options series, for the account or

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<sup>12</sup> See BX Chapter VII, Section 2.

<sup>13</sup> See note 7 above.

accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

This Rule prohibits Public Customers from entering limit orders into the Order Book in the same option series in a manner where the public customer is effectively operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. This rule would limit the ability of Options Participants that are not Market Makers to compete on preferential terms, including Public Customers who are provided with certain benefits, such as priority of bids and offers. Restrictions on the entry of Professional or broker-dealer orders are not imposed because the same priority does not exist. As noted herein, Market Makers are required to register with the Exchange.<sup>14</sup> Market Makers are afforded preferential pricing.<sup>15</sup> The Exchange believes that Public Customers that desire to make markets on BX should register with the Exchange. The Exchange's proposal to adopt this new rule text within Chapter VII, Section 12(b) will bring greater clarity to current limitations that exist when entering orders. Section 12 is consistent with the Act and will promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system because it will continue to make clear the requirement to expose orders as well as present more specific limitations on order entry which would violate BX Rules. Providing members with more information as to the type

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<sup>14</sup> See BX Chapter VII, Section 2.

<sup>15</sup> See BX's Pricing Schedule at Options 7.

of behavior that is violative with respect to order exposure will prevent inadvertent violations of Exchange rules and ensure that orders are subject to appropriate price discovery.

The Exchange proposes to amend Chapter VII, Section 12(c) by adding a new titled “Limitations on Solicitation Orders.” The Exchange also proposes to amend the rule text to more closely align with ISE, GEMX and MRX Rules at Options 3, Section 22. The amendments to the rule text is not substantive and simply reiterates the same exception for BX PRISM that is currently contained within Chapter VII, Section 12(a) for completeness.

The Exchange proposes to amend Chapter VII, Section 12(d) to add rule text that specifically notes that “for purposes of violating Chapter VII, Section 12” at the end of the rule text. This phrase will make clear that the violation is specific to this rule.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>17</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 as provided for within the purpose section.

Chapter VI, Section 6 Acceptance of Quotes and Orders

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

The Exchange's proposal to add a new section (b) to Chapter VI, Section 6 to describe the current requirements and conditions for submitting quotes is consistent with the Act. The Exchange proposes within Chapter VI, Section 6 to create a list of all the requirements and conditions for submitting quotes on BX within one rule is consistent with the Act because it will provide greater transparency to market participants of the applicable requirements. The Exchange's proposal is intended to provide greater information with respect to Firm Quote within new Section 6(b)(5) and regarding trade-through and locked and crossed markets Section 6(b)(6).

The additional rule text is consistent with the Act because it adds detail regarding the method in which orders which are firm or locked and crossed will be handled in the System. The notifications for Firm Quote are made clear with the proposed rule text. The Exchange believes that it is consistent with the Act to specify when quotes are firm and the handling of such quotes by the System for the protection of investors and the general public. The clarity is designed to promote just and equitable principles of trade by notifying all participants engaged in market making of potential outcomes. Today, quotations may not be executed against at prices that trade-through an away market. Also, quotations may not lock or cross an away market. The repricing of quotations is consistent with the Act because repricing prevents the Exchange from disseminating a price which locks or crosses another market. BX is required to avoid displaying a quotation that would lock or cross a quotation of another market center at the time it is displayed. Preventing inferior prices from displaying perfects the mechanism of a free and open market and a national market system, and, in general protects investors and the public interest.

BX is memorializing its current practice by reflecting the various requirements and limitations for quote entry in one rule for ease of reference and clarity. The Exchange proposes to conform this rule to similar rules across other Nasdaq affiliated exchanges.<sup>18</sup> Making clear the manner in which Market Makers may generate and submit option quotations will provide these market participants with clear guidance within the rules. Chapter VII, Section 6(b)(1) makes clear that Market Makers may submit quotes.<sup>19</sup> Further, Chapter VI, Section 21 describes the SQF interface.<sup>20</sup> BX proposes to clarify that only one quote may be submitted at a time for a series. The Exchange believes that memorializing these restrictions will bring greater clarity to the Exchange's rules.

The relocations of both the Kill Switch and Detection of Loss of Communication rules is consistent with the Act because these relocations will bring greater transparency to these protection rules because they will be easier to search by the title within the Rulebook. The relocation of the zero-bid and routing information to Chapter VI, Section 10(5) and (6) is intended to locate that information with rules describing allocation.

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<sup>18</sup> See note 7 above.

<sup>19</sup> Chapter VII, Section 2 describes the manner in which Market Makers must register and Section 6(c) provides for firm quote.

<sup>20</sup> Chapter VI, Section 21(a)(i)(B) provides, "Specialized Quote Feed" or "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Market Maker.

The Exchange's proposal to eliminate rule text within current Chapter VI, Section 6(a)(1) and (2) is consistent with the Act because these rules describe order types in general. The order types are described today within Chapter VI, Section 1(e). All order types are executable against marketable contra-side orders in the System. All Time in Force designations noted in Chapter VI, Section 1(g) are available to market participants entering orders on BX. The Exchange believes that the information provided in Chapter VI, Section 6(a)(1) and (2) is covered within Chapter VI, Section 1. The Exchange believes that eliminating this rule is consistent with the Act because the rule text does not add any new information.

#### Chapter VI, Section 7, Entry and Display Orders

Similar to Chapter VI, Section 6, which describes requirements for quotes, the Exchange proposes to adopt a new Chapter VI, Section 7, "Entry and Display of Orders" and describe the current requirements and conditions for entering orders. The Exchange notes that the requirements provided for within this rule represent the current practice. The purpose of Chapter VI, Section 7 is to memorialize this information within a single rule to provide a list of other requirements which may impact the execution of an order. Trades may be nullified today by agreement of the parties. The Exchange believes that it is consistent with the Act to permit parties to agree to a nullification provided the nullification does not violate other exchange rules. The Exchange notes that parties may not agree to a mutual agreement for purposes that would cause another rule to be violated. The Exchange believes that it is consistent with the Act and protection of investors and general public to make clear the expected behavior with respect to nullifications.

Today, orders may not be executed at a price that trades through an away market. Also, orders may not lock or cross an away market. Routable orders must comply with Trade-Through and Locked and Crossed Markets restrictions. The repricing of orders is consistent with the Act because repricing prevents the Exchange from disseminating a price which locks or crosses another market. BX is required avoiding displaying an order that would lock or cross a quotation of another market center at the time it is displayed. Preventing inferior prices from displaying perfects the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The Exchange's proposal to adopt a new Chapter VI, Section 7, "Entry and Display of Orders" and describe the current requirements and conditions for entering orders, similar to proposed changes to Chapter VI, Section 6 for quotes is consistent with the Act because it will provide transparency as to manner in which orders may be submitted to the System. The Exchange's new rule reflects the current requirements for submitting orders into the System. Similar to proposed Chapter VI, Section 6, the Exchange proposes to memorialize requirements and limitations within one rule for ease of reference.

The Exchange's proposal to adopt a new Chapter VI, Section 7 will conform proposed Rule to other Nasdaq affiliated markets filing similar rules.<sup>21</sup> The Exchange's proposal to add rule text to describe potential violations of this rule will bring greater clarity to current limitations that exist when entering orders. Proposed Chapter VI, Section 7 is consistent with the Act because it provides one rule for ease of reference which lists the current limitations and some additional limitations. The Exchange

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<sup>21</sup> See note 7 above.

believes the proposed rule will promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system because it will continue to make clear the requirement to expose orders as well as present more specific limitations on order entry which would violate BX Rules. Providing members with more information as to the type of behavior that is violative with respect to order exposure will prevent inadvertent violations of Exchange rules and ensure that orders are subject to appropriate price discovery.

#### Chapter VI, Section 21, Order and Quote Protocols

The Exchange's proposal to amend Chapter VI, Section 21(a)(i)(B) to make clear that Market Makers may only enter interest into SQF in their assigned options series is consistent with the Act. Chapter VII, Section 2, Market Maker Registration, describes the manner in which Market Makers are appointed in options series. This sentence simply provides that SQF may only be utilized for quoting in assigned options series.

#### Chapter VII, Section 5, Obligations of Market Makers

Memorializing information related to order entry for Market Makers within Chapter VII, Section 5 will bring greater clarity to the Rulebook. Today, Market Makers may enter all order types defined in Chapter VI, Section 1(e).

#### Chapter VII, Section 12, Order Exposure Requirements

The Exchange's proposal to amend Chapter VII, Section 12 to provide a specific rule for entering Public Customer is consistent with the Act. Providing market participants with clear guidelines will protect investors and the public interest by providing additional notice of violative behavior when entering orders. The proposed



rule text is similar to current Nasdaq Phlx LLC Rules.<sup>22</sup> The Exchange believes that this proposed language will provide more transparency as to the types of transactions that are not permitted today on BX. With respect to limit orders, the Exchange seeks to limit the ability of non-market makers to effectively make markets on the Exchange using automated systems that place and cancel orders in a manner that is similar to quoting. With respect to principal transactions, the Exchange is making clear that a BX Options Participant may not take both sides of a trade (the agency side and also act as principal) on an execution without order exposure to provide the agency order the opportunity for price improvement. This rule is intended to ensure that customers receive fair executions. This rule is consistent with the Act in that it promotes just and equitable principles of trade and protects investors and the public interest. The Exchange's proposal to describe exposure of agency orders mirrors language already contained with Chapter VI, Section 12. The Exchange also notes that current Chapter III, Section 4(d) would apply to the types of violations noted with respect to new Chapter VII, Section 12 provisions.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that other options markets have similar rules with respect to order and quote entry and the requirements to expose orders. The implementation of such rules may vary across options markets. Despite the variation in implementation, the Exchange does not believe this proposal creates an undue burden on inter-market

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<sup>22</sup> See Nasdaq Phlx LLC Rule 1097.

competition because the requirements for order exposure are consistent with respect to all markets as well as the ability to submit quotes and orders on all options markets

Chapter VI, Section 6 Acceptance of Quotes and Orders

The Exchange's proposal to describe the current requirements and conditions for submitting quotes does not impose an undue burden on competition and all Market Makers are subject to these requirements today. The Exchange is memorializing its current practice by reflecting the various requirements and limitations for quote entry in one rule for ease of reference and clarity. The Exchange is also proposing to conform this rule to similar rules across other Nasdaq affiliated exchanges.

Chapter VI, Section 7, Entry and Display Orders

The Exchange's proposal to amend Chapter VI, Section 7, "Entry and Display Orders" to describe the current requirements and conditions for entering orders, similar to proposed changes to Chapter VI, Section 6 for quotes does not create an undue burden on competition because it will apply uniformly to all market participants. The Exchange is memorializing its current practice by reflecting the various requirements and limitations for order entry in one rule for ease of reference and clarity. The Exchange is also proposing to conform this rule to similar rules across other Nasdaq affiliated exchanges. Making clear the manner in which Options Participants may generate and submit option orders will provide these market participants with clear guidance within the rules.

Chapter VI, Section 21, Order and Quote Protocols

The Exchange proposes to amend Chapter VI, Section 21(a)(i)(B) to make clear that Market Makers may only enter interest into SQF in their assigned options series does not impose an undue burden on competition, rather it makes clear that SQF may only be

utilized for quoting in assigned options series. This rule is applicable to all Market Makers.

Chapter VII, Section 5, Obligations of Market Makers

Memorializing information related to order entry for Market Makers within Chapter VII, Section 5 does not impose an undue burden on competition. Today, Market Makers may enter all order types defined in Chapter VI, Section 1(e).

Chapter VII, Section 12, Order Exposure Requirements

The Exchange's proposal to amend Chapter VII, Section 12 to provide specific rules for limitations on entering limit orders, principal transactions and agency orders does not impose an undue burden on competition because these rules provide additional specificity as to the manner in which orders may be entered on BX. The Exchange believes that this proposed language will provide more transparency as to the types of transactions that are not permitted today on BX and would violate BX Chapter III, Section 4(f). These rules will apply uniformly to all BX Options Participants.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Members, 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)<sup>23</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>24</sup> in that it effects a change

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>24</sup> 17 CFR 240.19b-4(f)(6).

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's proposal does not significantly affect the protection of investors or the public interest because the amendments to Chapter VI, Section 6 memorialize the current requirements and conditions for submitting quotes. The Exchange believes that memorializing these restrictions will bring greater clarity to the Exchange's rules. The relocations of both the Kill Switch and Detection of Loss of Communication rules will bring greater transparency to these protection rules because they will be easier to search by the title within the Rulebook. Adding specific language describing the manner in which quotes submitted with invalid minimum increments will be re-priced will provide Market Makers with the ability to have their quotes submitted. Amending Chapter VI, Section 7 will describe the requirements and conditions pursuant to which Options Participants can enter orders into the System. The Exchange believes that listing the requirements and limitations is consistent will provide Options Participants with the information necessary to process orders on BX. The Exchange's proposal to amend Chapter VII, Section 12 to list all the exceptions to the exposure requirement will bring greater clarity to the Rulebook. The Exchange's proposal to amend Chapter VII, Section 12(d) will make clear that an Options Participant cannot inform another Options Participant or any other third party of any of the terms of the order in violation of that rule.

The Exchange's proposal to amend Chapter VI, Section 6 to describe the current requirements and conditions for submitting quotes does not impose any significant burden on competition because the Exchange is memorializing its current practice by reflecting the various requirements and limitations in one rule for ease of reference and clarity. Also, all Market Makers are subject to uniform requirements for quoting. Relocating the Kill Switch and Detection of Loss of Communication and the zero-bid and routing information rules does not impose any significant burden on competition because these relocations will bring greater transparency to these protection rules because they will be easier to search by the title within the Rulebook. The Exchange's proposal to amend Chapter VI, Section 7 to describe the current requirements and conditions for entering orders, similar to proposed changes to Chapter VI, Section 6 for quotes does not impose any significant burden on competition because it will apply uniformly to all market participants. The Exchange is memorializing its current practice by reflecting the various requirements and limitations for order entry in one rule for ease of reference and clarity. The Exchange is also proposing to conform this rule to similar rules across other Nasdaq affiliated exchanges. Making clear the manner in which Options Participants may generate and submit option orders will provide these market participants with clear guidance within the rules. Adding specific language describing the manner in which quotes submitted with invalid minimum increments will be re-priced does not impose any significant burden on competition because all Market Makers that submitted their quotes with invalid minimum increments will have their quotes re-priced. Memorializing information related to order entry for Market Makers within Chapter VI, Section 5 does not impose any significant burden on competition. Today, Market Makers may enter all

order types defined in Chapter VI, Section 1(e). The Exchange's proposal to amend Chapter VII, Section 12 to provide specific rules for limitations on entering limit orders, principal transactions and agency orders does not impose any significant burden on competition because these rules provide additional specificity as to the manner in which orders may be entered on BX. The Exchange believes that this proposed language will provide more transparency as to the types of transactions that are not permitted today on BX and would violate BX Chapter III, Section 4(f). These rules will apply uniformly to all BX Options Participants.

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.

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

The proposed amendments are similar to ISE, GEMX and MRX Options 3, Sections 4(b), 15(a), 22 and Phlx Rule 1097(a) and (b).

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.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-BX-2019-033)

September \_\_, 2019

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend BX Rules at Chapter VI, Section 6

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 September 26, 2019, 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 amend BX Rules at Chapter VI, Section 6, “Acceptance of Quotes and Orders,” Chapter VI, Section 7, “Entry and Display Orders,” Chapter VI, Section 10, “Book Processing,” Chapter VI, Section 21, “Order and Quote Protocols,” Chapter VII, Section 5, “Obligations of Market Makers,” and Chapter VII, Section 12, “Order Exposure Requirements.” The Exchange proposes to relocate certain current rules to new Rules Chapter VI, Section 22, titled “Kill Switch” and 23, titled “Detection of Loss of Communication.”

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

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



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 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 Chapter VI, Section 6, "Acceptance of Quotes and Orders," Chapter VI, Section 7, "Entry and Display Orders," Chapter VI, Section 10, "Book Processing," Chapter VI, Section 21, "Order and Quote Protocols," Chapter VII, Section 5, "Obligations of Market Makers," and Chapter VII, Section 12, "Order Exposure Requirements." The Exchange proposes to relocate certain current rules to new Rules Chapter VI, Section 22, titled "Kill Switch" and 23, titled "Detection of Loss of Communication." Each rule change will be discussed in greater detail below.

Chapter VI, Section 6 Acceptance of Quotes and Orders

Currently, Chapter VI, Section 6 is titled "Acceptance of Quotes and Orders." The Exchange proposes to retitle Chapter VI, Section 6 as "Entry and Display of Quotes." The Exchange proposes to add an (a) before the first paragraph. The Exchange is removing references to orders in this Rule because it also proposes to adopt a new

Chapter VI, Section 7, titled “Entry and Display of Orders” to describe requirements for order entry.

The Exchange proposes to add a new section (b) to Chapter VI, Section 6 to describe the current requirements and conditions for submitting quotes. These requirements reflect the current System operation today. The Exchange proposes to memorialize the various requirements for the submission of quotes into the System for greater transparency. The Exchange proposes to provide at proposed Chapter VI, Section 6(b), “Quotes are subject to the following requirements and conditions:”. The Exchange proposes to add at Chapter VI, Section 6(b)(1) that “Market Makers may generate and submit option quotations.” Current Chapter VII, Section 6 makes clear that Market Makers may submit quotes,<sup>3</sup> however the Exchange proposes to create a list of rules related to quote submission within this rule for ease of reference. The Exchange proposes to provide at proposed Chapter VI, Section 6(b)(2) that “The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.” The Exchange notes that all quotes today are time-stamped for purposes of processing quotes. Proposed Rule Chapter VI, Section 6(b)(3) states that “Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.” The Exchange believes that this information will provide Market Makers with information on submitting a quote. The Exchange notes that bid or offer may be a “0,” however a price is required to be entered for both the bid and offer to be entered into the System. Further, the Exchange proposes

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<sup>3</sup> Chapter VII, Section 6(b) provides, “A Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX Options must enter an offer (bid).”

at Chapter VI, Section 6(b)(4) to provide clarity for entering quotes and proposes to specify, “The System accepts quotes beginning at a time specified by the Exchange and communicated on the Exchange’s website.”<sup>4</sup> The Exchange believes that this information will bring greater transparency to the Rulebook with respect to limitations for submitting quotations into the System.

The Exchange proposes a provision regarding firm quote within proposed Rule Chapter VI, Section 6(b)(5):

**Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority (“OPRA”); quotes received from another market designated as “not firm” using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.

BX Chapter VI, Section 6(b)(5) describes Firm Quote for purposes of quote submission.

The Exchange proposes to memorialize within its Rules the requirement for the

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<sup>4</sup> The system settings page is located: [http://www.nasdaqtrader.com/content/technicalsupport/BXOptions\\_SystemSettings.pdf](http://www.nasdaqtrader.com/content/technicalsupport/BXOptions_SystemSettings.pdf).

dissemination of quotations pursuant to Reg NMS.<sup>5</sup> The Exchange is proposing to add the above rule text to provide context as to this restriction for submitting quotes. The Exchange proposes to make clear the manner in which quote relief will occur. Specifically, this proposed rule text indicates the manner in which a determination for quote relief is made. Further, the rule notes the Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Also, when relief is no longer available, such quotations will be included in the calculation of NBBO for such options. The Exchange notes how the determination is made that relief is no longer available. The proposed rule text adds greater context to the manner in which Firm Quote relief is applied. This rule text represents the current practice.

Similarly, the Exchange proposes to provide the following proposed new Chapter VI, Section 6(b)(6):

**Trade-Through Compliance and Locked or Crossed Markets.** A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

Today, quotations may not be executed against prices that trade-through an away market as provided for in the Options Order Protection and Locked/Crossed Market Plan which is also described within Chapter XII, Options Order Protection and Locked and Crossed Market Rules. Also, quotations may not lock or cross an away market. The

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<sup>5</sup> 17 CFR §242.602.

repricing is provided for today within BX Chapter VI, Section 7(b)(3)(C).<sup>6</sup> By stating this limitation in the rule, Market Makers will have greater clarity as to this limitation. Further, the Exchange is making clear that a quote that would cause a locked or crossed market violation or would cause a trade-through violation will be re-priced. The Exchange would display the quote at one minimum price variation (“MPV”) above (for offers) or below (for bids) the national best price. Repricing quotes is consistent with the Act because the Exchange is not permitted to lock or cross an away market’s quote or order. The Exchange reprices the quotes one MPV inferior to cause the displayed price to reflect the available market on BX.

Finally, the Exchange proposes at Chapter VI, Section 6(b)(7) to provide, “Quotes submitted to the System are subject to the following: minimum increments provided for in Chapter VI, Section 5 and risk protections provided for in Chapter VI, Section 18.” The Exchange is noting herein the manner in which a quote may be rejected by the System to provide market participants with expectations as to the interplay among the various BX Rules. Specifically, if the Market Maker does not submit a quotation compliant with Chapter VI, Section 5, the quote will not be accepted by the System because market participants are required to abide by Chapter VI, Section 5 which describes the increments with which options series are to be quoted. Chapter VI, Section 18 provides a list of all protections applicable to quotes that may be rejected. The Exchange believes that this rule will provide Options Participants with requirements and

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<sup>6</sup> An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.

conditions for submitting quotations and provide transparency as to limitations that cause a quote to be rejected.

The Exchange proposes to provide at Chapter VI, Section 6(c), “Quotes will be displayed in the System as described in Chapter VI, Section 19.” Chapter VI, Section 19, titled “Data Fees and Trade Information” provides for the available feeds that Options Participants may access on the Exchange. This list represents the available data feeds and the content of those data feeds which are offered today by BX.

The amendments to BX Chapter VI, Section 6 create a list of all the requirements and conditions for submitting quotes on BX within one rule is consistent with the Act because it will provide greater transparency to market participants of the applicable requirements. Further, this proposal will make the current rule clear and understandable for market participants thereby protecting investors and the general public. The Exchange notes that while some of these requirements appear in other rules, for ease of reference the requirements are located within a single rule with this proposal. The proposal reflects the Exchange’s current practice with respect to quoting requirements. This proposal will conform this Rule to other Nasdaq affiliated markets filing similar rules.<sup>7</sup> The Exchange’s proposal is intended to provide greater information with respect to Firm Quote within new BX Chapter VI, Section 6(b)(5) and regarding trade-through and locked and crossed markets Section 6(b)(6). The addition of this rule text is consistent with the Act because the Exchange is adding detail

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<sup>7</sup> Nasdaq Phlx, Nasdaq ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC have similar rules. See Securities Exchange Act Release Nos. 86286 (July 2, 2019), 84 FR 32794 (July 9, 2019) (SR-Phlx-2019-25) and SR-ISE-2019-23, SR-GEMX-2019-13 and SR-MRX-2019-20. The ISE, GEMX and MRX rule changes are filed on September 17, 2019, but they are not yet published.

regarding the method in which quotes which are firm or locked and crossed will be handled in the System. The notifications for Firm Quote are made clear with the proposed rule text. The Exchange believes that it is consistent with the Act to specify when quotes are firm and the handling of such quotes by the System for the protection of investors and the general public. The clarity is designed to promote just and equitable principles of trade by notifying all participants engaged in market making of potential outcomes. Today, quotations may not be executed against at prices that trade-through an away market. Also, quotations may not lock or cross an away market. The repricing of quotations is consistent with the Act because repricing prevents the Exchange from disseminating a price which locks or crosses another market. BX is required to avoid displaying a quotation that would lock or cross a quotation of another market center at the time it is displayed. Preventing inferior prices from displaying perfects the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange proposes to delete the rule text at Chapter VI, Section 6(a)(1) and (2), which states:

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

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

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

The Exchange notes that all order types listed in Chapter VI, Section 1(e) may be entered on BX. All order types are executable against marketable contra-side orders in the System. The System will not permit an order to execute that is not marketable. BX has described in this proposal that it would not trade-through an away market. All Time in Force designations noted in Chapter VI, Section 1(g) are available to market participants entering orders on BX. The Exchange believes that the information provided in Chapter VI, Section 6(a)(1) and (2) is also covered within Chapter VI, Section 1 and therefore proposes to delete this rule text.

The Exchange proposes to relocate Chapter VI, Section 6(a)(3), relating to zero-bid, and 6(b), relating to routing, into Chapter VI, Section 10(5) and (6). The Exchange believes that this information should be described within the rule describing allocation. Chapter VI, Section 6(c), which is reserved, is being deleted. The Exchange proposes to relocate Chapter VI, Section 6(d), related to the BX Options Kill Switch, to new Chapter VI, Section 22. The Exchange proposes to relocate Chapter VI, Section 6(e), related to Detection of Loss of Communication, to new Chapter VI, Section 23. The Exchange believes that these two topics should be in separate rules for ease of locating those rules. The Exchange is not proposing to amend the Kill Switch or Detection of Loss of Communication rules; this rule change is non-substantive. The Exchange proposes to update internal cross-references.

#### Chapter VI, Section 7, Entry and Display Orders

The Exchange proposes to amend Chapter VI, Section 7 titled “Entry and Display Orders.” The Exchange proposes to retitle this rule, “Entry and Display of Orders.” Similar to Chapter VI, Section 6 for quotes, the Exchange proposes this new rule to



describe the current requirements and conditions for entering orders. The Exchange notes that the requirements provided for within this rule represent the current practice. The purpose of Chapter VI, Section 7 is to memorialize this information within a single rule.

The Exchange proposes to amend Chapter VI, Section 7(a) to remove the title, “Entry of Orders-”. The Exchange proposes to memorialize the manner in which orders may be submitted to the System to add more detail to its rules. The Exchange proposes to amend Chapter VI, Section 7(a)(1) to remove and unnecessary “a” and also to remove the sentence which provides, “Each order shall indicate the amount of Reserve Size (if applicable).” No order type on BX has a Reserve Size.<sup>8</sup> BX no longer has any order types with non-displayed interest; previously, BX offered Discretionary Orders and Reserve Orders on BX, but both have been eliminated. The Exchange proposes to adopt a new Chapter VI, Section 7(a)(2) which provides, “The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange’s web site.”<sup>9</sup> The Exchange proposes to renumber current Chapter VI, Section 7(a)(2) as (a)(3). The Exchange proposes to renumber current Chapter VI, Section 7(a)(3) as (a)(4) and amend the rule which provides, “Orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close” to “Orders submitted to the System are subject to minimum increments provided for in Chapter VI, Section 5, risk protections within Chapter VI, Section 18 and the restrictions of order types within Chapter VI, Section 21(b). Orders

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<sup>8</sup> See Securities Exchange Act Release No. 65873 (December 2, 2011), 76 FR 76786 (December 8, 2011) (SR-NASDAQ-2011-164).

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

may execute at multiple prices.” The Exchange is proposing to conform order entry rules across its Nasdaq Affiliated markets, where applicable. The Exchange proposed the time during which the System accepts orders within Chapter VI, Section 7(a)(2) and therefore this rule text is not necessary as the proposed rule describes time for accepting orders elsewhere. All orders must adhere to other rule requirements such as minimum increments, risk protection rules and order types. Similar to the rule text for quotes, orders are currently subject to the minimum increment requirements in Chapter VI, Section 5, the risk protections for orders which are listed within current Chapter VI, Section 18 as well as the restrictions of order types within Chapter VI, Section 21(b). This rule provides a list of other requirements which may impact the execution of an order. Finally, orders may execute at multiple prices. This rule provides a list of other requirements which may impact the execution of an order.

The Exchange proposes to add new rule at Chapter VI, Section 7(a)(5) which states, “Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.” The rule text of new Chapter VI, Section 7(a)(5) is similar to Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”) Options 3, Section 4(b). Trades may be nullified today by agreement of the parties. The Exchange believes that it is consistent with the Act to permit parties to agree to a nullification provided the nullification does not violate other

exchange rules. The Exchange notes that parties may not agree to a mutual agreement for purposes that would cause another rule to be violated. The Exchange believes that it is consistent with the Act and protection of investors and general public to make clear the expected behavior with respect to nullifications.

The Exchange proposes to adopt new rule text at Chapter VI, Section 7(b) is similar to rule text at to ISE, GEMX and MRX Options 3, Section 15(a). This proposed rule provides,

**NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Rule Chapter XII, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Chapter XII, Section 1(11)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Chapter XII, Section 1(12)).

The Exchange believes that although BX Rules<sup>10</sup> make clear that orders may not execute at prices inferior to the NBBO, this rule text will provide that limitation in this proposed list of limitations for ease of reference. The Exchange notes that this NBBO Protection applies to orders and therefore is being discussed within proposed Chapter VI, Section 7 which applies to all Options Participants. In contrast, Chapter VI, Section 6, which applies to quotes entered by Market Makers, describes the Firm Quote protections and the interplay of NBBO with respect to quotes. Trade-Through is described in both Chapter VI, Section 6 and 7.

The Exchange proposes to state at Chapter VI, Section 7(c), “The System automatically executes eligible orders using the Exchange’s displayed best bid and offer (“BBO”).” This rule seeks to define the Exchange’s best bid and offer as the “BBO.” On

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<sup>10</sup> Intermarket Sweep Orders (as defined in Rule Chapter XII, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Chapter XII, Section 1(11)).

BX, eligible orders will execute at the best price available, the BBO. The Exchange believes that this information will provide Options Participants with additional information as some markets have non-displayed order types and BX has no non-displayed order types.

The Exchange proposes to relocate BX Chapter VI, Section 7(b)(3)(C) to Chapter VI, Section 7(d).

The Exchange proposes to add a sentence at Chapter VI, Section 7(e) which provides, “Orders will be displayed in the System as described in Chapter VI, Section 19.” Chapter VI, Section 19 contains information on data feeds and the information that is provided. This provision is similar to Chapter VI, Section 6(c).

The Exchange proposes to delete current Chapter VI, Section 7(b)(1)-(3) which provides,

(1) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed.

(2) Best Priced Order Display - For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.

(3) Exceptions—The following exceptions shall apply to the display parameters set forth in paragraphs (1) and (2) above:

The display of orders as well as the text relating to System Book Feed are being deleted because data feeds are described in other rules.<sup>11</sup> The Exchange believes this information is unnecessary as the data feeds are specific as to the content of the displayed information. The Exchange is also proposing to remove the rule text related to Best Priced Order Display as this information is described within Chapter XII, Options Order

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<sup>11</sup> See BX Chapter VI, Section 19, “Data Feeds and Trade Information.”

Protection and Locked and Crossed Markets. Specifically, BX Chapter XII, Section 1(18) which describes a Protected Bid and Offer and the manner in which they are disseminated to the OPRA Plan. The Exchange proposes to delete Chapter VI, Section 7(b)(3) as well as subsections (A), which is currently reserved. Current BX Chapter VI, Section 7(b)(3) notes exceptions to the display parameters. As noted (A) is reserved and as mentioned herein (B) and (C) are relocated within Section 7.

The Exchange's proposal to adopt a new Chapter VI, Section 7, "Entry and Display of Orders" and describe the current requirements and conditions for entering orders, similar to proposed changes to Chapter VI, Section 6 for quotes is consistent with the Act because it will provide transparency as to manner in which orders may be submitted to the System. The Exchange's new rule reflects the current requirements for submitting orders into the System. Similar to proposed Chapter VI, Section 6, the Exchange proposes to memorialize requirements and limitations within one rule for ease of reference.

#### Chapter VI, Section 10, Book Processing

As noted above, the Exchange is relocating rule text from current Chapter VI, Section 6(a)(3) and 6(b) to Chapter VI, Section 10(5) and (6). The Exchange also proposes to renumber current Chapter VI, Section 10(5) as "(7)".

#### Chapter VI, Section 21, Order and Quote Protocols

The Exchange proposes to amend Chapter VI, Section 21(a)(i)(B) to add the following sentence to Specialized Quote Feed ("SQF"), "Market Makers may only enter interest into SQF in their assigned options series." The Exchange notes that today

Market Makers may utilize SQF to quote only in their assigned options series.<sup>12</sup> This proposed rule text is consistent with the Act because it will add greater clarity to the current rule for the protection of investors and the public interest.

Chapter VII, Section 5, Obligations of Market Makers

The Exchange proposes to add a new Chapter VII, Section 5(d) to describe the manner in which Market Makers may enter orders on BX. There is no rule currently describing order entry by Market Makers. The Exchange proposes to memorialize the current practice by providing “Market Makers may enter all order types defined in Chapter VI, Section 1(e) in the options classes to which they are appointed and non-appointed.” This rule will provide Market Makers with information as to the types of orders that may entered on BX.

Chapter VII, Section 12, Order Exposure Requirements

The Exchange proposes to amend current Chapter VII, Section 12, titled “Order Exposure Requirements.” The Exchange proposes to amend the title to “Limitations on Order Entry” to conform the rule to other Nasdaq affiliate market rules.<sup>13</sup>

The Exchange proposes to amend Chapter VII, Section 12(a) to add the title “Limitations on Principal Transactions.” This change is not substantive. The Exchange proposes to amend Chapter VII, Section 12(b) to re-number it as (1) and replace the words “Section 12” with “This Rule.” The Exchange proposes to add a new Chapter VII, Section 12(b) similar to Phlx Rule 1097(a). The rule text would provide,

**Limit Orders.** Options Participants shall not enter Public Customer limit orders into the System in the same options series, for the account or

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<sup>12</sup> See BX Chapter VII, Section 2.

<sup>13</sup> See note 7 above.

accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

This Rule prohibits Public Customers from entering limit orders into the Order Book in the same option series in a manner where the public customer is effectively operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. This rule would limit the ability of Options Participants that are not Market Makers to compete on preferential terms, including Public Customers who are provided with certain benefits, such as priority of bids and offers. Restrictions on the entry of Professional or broker-dealer orders are not imposed because the same priority does not exist. As noted herein, Market Makers are required to register with the Exchange.<sup>14</sup> Market Makers are afforded preferential pricing.<sup>15</sup> The Exchange believes that Public Customers that desire to make markets on BX should register with the Exchange. The Exchange's proposal to adopt this new rule text within Chapter VII, Section 12(b) will bring greater clarity to current limitations that exist when entering orders. Section 12 is consistent with the Act and will promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system because it will continue to make clear the requirement to expose orders as well as present more specific limitations on order entry which would violate BX Rules. Providing members with more information as to the type

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<sup>14</sup> See BX Chapter VII, Section 2.

<sup>15</sup> See BX's Pricing Schedule at Options 7.

of behavior that is violative with respect to order exposure will prevent inadvertent violations of Exchange rules and ensure that orders are subject to appropriate price discovery.

The Exchange proposes to amend Chapter VII, Section 12(c) by adding a new titled “Limitations on Solicitation Orders.” The Exchange also proposes to amend the rule text to more closely align with ISE, GEMX and MRX Rules at Options 3, Section 22. The amendments to the rule text is not substantive and simply reiterates the same exception for BX PRISM that is currently contained within Chapter VII, Section 12(a) for completeness.

The Exchange proposes to amend Chapter VII, Section 12(d) to add rule text that specifically notes that “for purposes of violating Chapter VII, Section 12” at the end of the rule text. This phrase will make clear that the violation is specific to this rule.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>17</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 as provided for within the purpose section.

### Chapter VI, Section 6 Acceptance of Quotes and Orders

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).



The Exchange's proposal to add a new section (b) to Chapter VI, Section 6 to describe the current requirements and conditions for submitting quotes is consistent with the Act. The Exchange proposes within Chapter VI, Section 6 to create a list of all the requirements and conditions for submitting quotes on BX within one rule is consistent with the Act because it will provide greater transparency to market participants of the applicable requirements. The Exchange's proposal is intended to provide greater information with respect to Firm Quote within new Section 6(b)(5) and regarding trade-through and locked and crossed markets Section 6(b)(6).

The additional rule text is consistent with the Act because it adds detail regarding the method in which orders which are firm or locked and crossed will be handled in the System. The notifications for Firm Quote are made clear with the proposed rule text. The Exchange believes that it is consistent with the Act to specify when quotes are firm and the handling of such quotes by the System for the protection of investors and the general public. The clarity is designed to promote just and equitable principles of trade by notifying all participants engaged in market making of potential outcomes. Today, quotations may not be executed against at prices that trade-through an away market. Also, quotations may not lock or cross an away market. The repricing of quotations is consistent with the Act because repricing prevents the Exchange from disseminating a price which locks or crosses another market. BX is required to avoid displaying a quotation that would lock or cross a quotation of another market center at the time it is displayed. Preventing inferior prices from displaying perfects the mechanism of a free and open market and a national market system, and, in general protects investors and the public interest.

BX is memorializing its current practice by reflecting the various requirements and limitations for quote entry in one rule for ease of reference and clarity. The Exchange proposes to conform this rule to similar rules across other Nasdaq affiliated exchanges.<sup>18</sup> Making clear the manner in which Market Makers may generate and submit option quotations will provide these market participants with clear guidance within the rules. Chapter VII, Section 6(b)(1) makes clear that Market Makers may submit quotes.<sup>19</sup> Further, Chapter VI, Section 21 describes the SQF interface.<sup>20</sup> BX proposes to clarify that only one quote may be submitted at a time for a series. The Exchange believes that memorializing these restrictions will bring greater clarity to the Exchange's rules.

The relocations of both the Kill Switch and Detection of Loss of Communication rules is consistent with the Act because these relocations will bring greater transparency to these protection rules because they will be easier to search by the title within the Rulebook. The relocation of the zero-bid and routing information to Chapter VI, Section 10(5) and (6) is intended to locate that information with rules describing allocation.

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<sup>18</sup> See note 7 above.

<sup>19</sup> Chapter VII, Section 2 describes the manner in which Market Makers must register and Section 6(c) provides for firm quote.

<sup>20</sup> Chapter VI, Section 21(a)(i)(B) provides, "Specialized Quote Feed" or "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Market Maker.

The Exchange's proposal to eliminate rule text within current Chapter VI, Section 6(a)(1) and (2) is consistent with the Act because these rules describe order types in general. The order types are described today within Chapter VI, Section 1(e). All order types are executable against marketable contra-side orders in the System. All Time in Force designations noted in Chapter VI, Section 1(g) are available to market participants entering orders on BX. The Exchange believes that the information provided in Chapter VI, Section 6(a)(1) and (2) is covered within Chapter VI, Section 1. The Exchange believes that eliminating this rule is consistent with the Act because the rule text does not add any new information.

#### Chapter VI, Section 7, Entry and Display Orders

Similar to Chapter VI, Section 6, which describes requirements for quotes, the Exchange proposes to adopt a new Chapter VI, Section 7, "Entry and Display of Orders" and describe the current requirements and conditions for entering orders. The Exchange notes that the requirements provided for within this rule represent the current practice. The purpose of Chapter VI, Section 7 is to memorialize this information within a single rule to provide a list of other requirements which may impact the execution of an order. Trades may be nullified today by agreement of the parties. The Exchange believes that it is consistent with the Act to permit parties to agree to a nullification provided the nullification does not violate other exchange rules. The Exchange notes that parties may not agree to a mutual agreement for purposes that would cause another rule to be violated. The Exchange believes that it is consistent with the Act and protection of investors and general public to make clear the expected behavior with respect to nullifications.

Today, orders may not be executed at a price that trades through an away market. Also, orders may not lock or cross an away market. Routable orders must comply with Trade-Through and Locked and Crossed Markets restrictions. The repricing of orders is consistent with the Act because repricing prevents the Exchange from disseminating a price which locks or crosses another market. BX is required avoiding displaying an order that would lock or cross a quotation of another market center at the time it is displayed. Preventing inferior prices from displaying perfects the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The Exchange's proposal to adopt a new Chapter VI, Section 7, "Entry and Display of Orders" and describe the current requirements and conditions for entering orders, similar to proposed changes to Chapter VI, Section 6 for quotes is consistent with the Act because it will provide transparency as to manner in which orders may be submitted to the System. The Exchange's new rule reflects the current requirements for submitting orders into the System. Similar to proposed Chapter VI, Section 6, the Exchange proposes to memorialize requirements and limitations within one rule for ease of reference.

The Exchange's proposal to adopt a new Chapter VI, Section 7 will conform proposed Rule to other Nasdaq affiliated markets filing similar rules.<sup>21</sup> The Exchange's proposal to add rule text to describe potential violations of this rule will bring greater clarity to current limitations that exist when entering orders. Proposed Chapter VI, Section 7 is consistent with the Act because it provides one rule for ease of reference which lists the current limitations and some additional limitations. The Exchange

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<sup>21</sup> See note 7 above.

believes the proposed rule will promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system because it will continue to make clear the requirement to expose orders as well as present more specific limitations on order entry which would violate BX Rules. Providing members with more information as to the type of behavior that is violative with respect to order exposure will prevent inadvertent violations of Exchange rules and ensure that orders are subject to appropriate price discovery.

#### Chapter VI, Section 21, Order and Quote Protocols

The Exchange's proposal to amend Chapter VI, Section 21(a)(i)(B) to make clear that Market Makers may only enter interest into SQF in their assigned options series is consistent with the Act. Chapter VII, Section 2, Market Maker Registration, describes the manner in which Market Makers are appointed in options series. This sentence simply provides that SQF may only be utilized for quoting in assigned options series.

#### Chapter VII, Section 5, Obligations of Market Makers

Memorializing information related to order entry for Market Makers within Chapter VII, Section 5 will bring greater clarity to the Rulebook. Today, Market Makers may enter all order types defined in Chapter VI, Section 1(e).

#### Chapter VII, Section 12, Order Exposure Requirements

The Exchange's proposal to amend Chapter VII, Section 12 to provide a specific rule for entering Public Customer is consistent with the Act. Providing market participants with clear guidelines will protect investors and the public interest by providing additional notice of violative behavior when entering orders. The proposed

rule text is similar to current Nasdaq Phlx LLC Rules.<sup>22</sup> The Exchange believes that this proposed language will provide more transparency as to the types of transactions that are not permitted today on BX. With respect to limit orders, the Exchange seeks to limit the ability of non-market makers to effectively make markets on the Exchange using automated systems that place and cancel orders in a manner that is similar to quoting. With respect to principal transactions, the Exchange is making clear that a BX Options Participant may not take both sides of a trade (the agency side and also act as principal) on an execution without order exposure to provide the agency order the opportunity for price improvement. This rule is intended to ensure that customers receive fair executions. This rule is consistent with the Act in that it promotes just and equitable principles of trade and protects investors and the public interest. The Exchange's proposal to describe exposure of agency orders mirrors language already contained with Chapter VI, Section 12. The Exchange also notes that current Chapter III, Section 4(d) would apply to the types of violations noted with respect to new Chapter VII, Section 12 provisions.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that other options markets have similar rules with respect to order and quote entry and the requirements to expose orders. The implementation of such rules may vary across options markets. Despite the variation in implementation, the Exchange does not believe this proposal creates an undue burden on inter-market

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<sup>22</sup> See Nasdaq Phlx LLC Rule 1097.

competition because the requirements for order exposure are consistent with respect to all markets as well as the ability to submit quotes and orders on all options markets.

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>23</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>24</sup>

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

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>24</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.

#### 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-2019-033 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-2019-033. 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-2019-033 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>25</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>25</sup> 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 VI Trading Systems**

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**Sec. 6 [Acceptance of Quotes and Orders]Entry and Display of Quotes**

(a) All bids or offers made and accepted on BX Options in accordance with the BX Options Rules shall constitute binding contracts, subject to applicable requirements of the Rules of the Exchange and the Rules of the Clearing Corporation.

(b) Quotes are subject to the following requirements and conditions:

(1) Market Makers may generate and submit option quotations.

(2) The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.

(3) Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.

(4) The System accepts quotes beginning at a time specified by the Exchange and communicated on the Exchange's web site.

(5) **Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.

(6) Trade-Through Compliance and Locked or Crossed Markets. A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(7) Quotes submitted to the System are subject to the following: minimum increments provided for in Chapter VI, Section 5 and risk protections provided for in Chapter VI, Section 18.

(c) Quotes will be displayed in the System as described in Chapter VI, Section 19.

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

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

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

(3) **Zero-Bid Option Series.** In the case where the bid price for any options contract is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Chapter VI, Section 5. Orders will be placed on the limit order book in the order in which they were received by the System. With respect to market orders to sell which are submitted prior to the Opening and persist after the Opening, those orders are posted at a price equal to the minimum trading increment as defined in Chapter VI, Section 5.

(b) Routing - All System orders entered by Participants directing or permitting routing to other market centers shall be routed for potential display and/or execution as set forth in Section 11 below.

(c) Reserved.

(d) BX Options Kill Switch is an optional tool that enables BX Participants to initiate a message(s) to the System to: (i) promptly remove quotes; and/or (ii) promptly cancel orders. Participants may submit a request to the System to remove/cancel quotes and/or orders based on certain identifier(s) on either a user or group level ("Identifier"). Permissible groups must reside within a single broker-dealer. The System will send an automated message to the BX Participant when a Kill Switch request has been processed by the Exchange's System.

(i) If quotes are cancelled by the BX Participant utilizing the Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The BX Participant will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to section (d)(iii).

(ii) If orders are cancelled by the BX Participant utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The BX Participant will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (d)(iii).

(iii) After quotes and/or orders are removed/cancelled by the BX Participant utilizing the Kill Switch, the BX Participant will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the BX Participant has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the BX Participant. The applicable Clearing Participant also will be notified of the re-entry into the System after quotes and/or orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Participant has requested to receive such notification.

**(e) Detection of Loss of Communication**

(i) When the SQF Port detects the loss of communication with a BX Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the BX Participant's affected Client Application and automatically cancel all of the BX Participant's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same BX Options Market Maker ID and underlying issues.

(A) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF or FIX Port and the Client Application. The Heartbeat message sent by the BX Participant and subsequently received by the Exchange allows the SQF or FIX Port to continually monitor its connection with the BX Participant.

(B) SQF Port is the Exchange's System component through which BX Participants communicate their quotes from the Client Application.

(C) FIX Port is the Exchange's System component through which BX Participants communicate their orders from the Client Application.

(D) Client Application is the System component of the BX Participant through which the BX Participant communicates its quotes and orders to the Exchange.

(ii) When the FIX Port detects the loss of communication with a BX Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the BX Participant's affected

Client Application and, if the BX Participant has elected to have its orders cancelled pursuant to Chapter VI, Section 6(e)(iv), automatically cancel all open orders posted.

**(iii)** The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A BX Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each BX Participant and may not be disabled.

(A) If the BX Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The BX Participant may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the BX Participant shall persist for each subsequent session of connectivity until the BX Participant either contacts Exchange operations and changes the setting or the BX Participant systemically selects another time period prior to the next session of connectivity.

**(iv)** The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the BX Participant elects to have its orders removed, in addition to the disconnect, the BX Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (ii) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the BX Participant will be disconnected.

(A) If the BX Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The BX Participant may change the default setting systemically prior to each session of connectivity.

(B) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the BX Participant shall persist for each subsequent session of connectivity until the BX Participant either contacts Exchange operations and changes the setting or the BX Participant systemically selects another time period prior to the next session of connectivity.

**(v)** The trigger for the SQF and FIX Ports is event and Client Application specific. The automatic cancellation of the BX Options Market Maker's quotes for SQF Ports and open orders for FIX Ports entered into the respective SQF or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other BX

Options Market Makers entered into SQF Ports or orders of the same or other BX Participants entered into the FIX Ports via a separate and distinct Client Application.]

### **Sec. 7 Entry and Display of Orders**

(a) [Entry of Orders—]Participants can enter orders into the System, subject to the following requirements and conditions:

(1) Participants shall be permitted to transmit to the System multiple orders at [a] single as well as multiple price levels. [Each order shall indicate the amount of Reserve Size (if applicable).]

(2) The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange's web site.

([2]3) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.

([3]4) [Orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close.] Orders submitted to the System are subject to minimum increments provided for in Chapter VI, Section 5, risk protections within Chapter VI, Section 18 and the restrictions of order types within Chapter VI, Section 21(b). Orders may execute at multiple prices.

(5) Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(b) **NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Rule Chapter XII, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Chapter XII, Section 1(11)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Chapter XII, Section 1(12)).

(c) [Display of Orders— The System will display orders submitted to t]The System automatically executes eligible orders using the Exchange's displayed best bid an offer ("BBO").

**(d) Trade-Through Compliance and Locked or Crossed Markets.** An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked

or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(e) Orders will be displayed in the System as described in Chapter VI, Section 19.

[(1) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed.

(2) Best Priced Order Display - For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.

(3) Exceptions—The following exceptions shall apply to the display parameters set forth in paragraphs (1) and (2) above:

(A) Reserved.

(B) Reserved.

(C) Trade-Through Compliance and Locked or Crossed Markets- An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.

If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.]

\* \* \* \* \*

## **Sec. 10 Book Processing**

System orders shall be executed through the BX Book Process set forth below:

(1) - (4) No change.

(5) **Zero-Bid Option Series.** In the case where the bid price for any options contract is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Chapter VI, Section 5. Orders will be placed on the limit order book in the order in which they were received by the System. With respect to market orders to sell which are submitted prior to the Opening and persist after

the Opening, those orders are posted at a price equal to the minimum trading increment as defined in Chapter VI, Section 5.

(6) Routing - All System orders entered by Participants directing or permitting routing to other market centers shall be routed for potential display and/or execution as set forth in Section 11 below.

([5]7) *Market Access.* In addition to the Exchange Rules regarding routing to away trading centers, Nasdaq Execution Services, LLC, as defined in Chapter VI, Section 11(e) has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by Nasdaq Execution Services, LLC to comply with Rule 15c3- 5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel the order if it has been routed.

\* \* \* \* \*

## **Sec. 21 Order and Quote Protocols**

(a) No change.

(i) No change.

(A) No change.

(B) “**Specialized Quote Feed**” or “**SQF**” is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series.

## **Sec. 22 Kill Switch**

(a) BX Options Kill Switch is an optional tool that enables BX Options Participants to initiate a message(s) to the System to: (i) promptly remove quotes; and/or (ii) promptly cancel orders. Participants may submit a request to the System to remove/cancel quotes and/or orders based on certain identifier(s) on either a user or group level ("Identifier"). Permissible groups must reside within a single broker-dealer. The System will send an automated message to the BX Options Participant when a Kill Switch request has been processed by the Exchange's System.



(1) If quotes are cancelled by the BX Options Participant utilizing the Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The BX Options Participant will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

(2) If orders are cancelled by the BX Options Participant utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The BX Options Participant will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

(3) After quotes and/or orders are removed/cancelled by the BX Options Participant utilizing the Kill Switch, the BX Options Participant will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the BX Options Participant has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the BX Options Participant. The applicable Clearing Participant also will be notified of the re-entry into the System after quotes and/or orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Participant has requested to receive such notification.

### **Sec. 23 Detection of Loss of Communication**

(a) When the SQF Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and automatically cancel all of the Participant's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same BX Options Market Maker ID and underlying issues.

(1) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF, FIX or OTTO Port and the Client Application. The Heartbeat message sent by the Participant and subsequently received by the Exchange allows the SQF, FIX or OTTO Port to continually monitor its connection with the Participant.

(2) SQF Port is the Exchange's System component through which Participants communicate their quotes from the Client Application.

(3) FIX and OTTO Ports are the Exchange's System components through which Participants communicate their orders from the Client Application.

(4) Client Application is the System component of the Participant through which the Exchange Participant communicates its quotes and orders to the Exchange.

(b) When the FIX Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client

Application and if the Participant has elected to have its orders cancelled pursuant to subparagraph (e) automatically cancel all open orders posted.

(c) When the OTTO Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to subparagraph (f) automatically cancel all open orders posted.

(d) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each Participant and may not be disabled.

(1) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(2) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(e) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (b) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(A) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(B) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(f) The default time period ("nn" seconds) for OTTO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (c) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for OTTO Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(A) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(g) The trigger for the SQF, FIX and OTTO Ports is event and Client Application specific. The automatic cancellation of the BX Options Market Maker's quotes for SQF Ports and open orders for FIX and OTTO Ports entered into the respective SQF, FIX or OTTO Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other BX Options Market Makers entered into SQF Ports or orders of the same or other Participants entered into the FIX or OTTO Ports via a separate and distinct Client Application.

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## **Chapter VII Market Participants**

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### **Sec. 5 Obligations of Market Makers**

(a) – (c) No change.

(d) **Market Maker Orders.** Market Makers may enter all order types defined in Chapter VI, Section 1(e) in the options classes to which they are appointed and non-appointed.

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### **Sec. 12 [Order Exposure Requirements]Limitations on Order Entry**

(a) **Limitations on Principal Transactions.** With respect to orders routed to BX Options, Options Participants may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on BX Options for at least one (1) second or (ii) the Options Participant has been bidding or offering on BX Options for at least one (1) second prior to receiving an

agency order that is executable against such bid or offer or (iii) orders entered into BX PRISM pursuant to Chapter VI, Section 9.

[(b) Section 12] (1) This Rule prevents Options Participants from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on BX Options an opportunity to either trade with the agency order or to trade at the execution price when the Options Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Participant to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on BX Options and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of Section 12 for an Options Participant to be a party to any arrangement designed to circumvent Section 12 by providing an opportunity for a customer to regularly execute against agency orders handled by the Options Participant immediately upon their entry into BX Options.

**(b) Limit Orders.** Options Participants shall not enter Public Customer limit orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

**(c) Limitations on Solicitation Orders.** [It will be a violation of Section 12 for a]An Options Participant may not [to cause the ]execute[ion of] an order it represents as agent on BX Options against orders [it] solicited from members and non-member broker-dealers, whether such solicited orders are entered into BX Options directly by the Options Participant or by the solicited party (either directly or through another Options Participant), if the Options Participant fails to expose orders on BX Options as required by [Section 12]this Rule unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, or (ii) the Options Participant orders entered into BX PRISM pursuant to Chapter VI, Section 9.

(d) Prior to or after submitting an order to BX Options, an Options Participant cannot inform another Options Participant or any other third party of any of the terms of the order for purposes of violating Chapter VII, Section 12.

\* \* \* \* \*