

acceptable time period during major disruptions.

1. (a) How will PNT services be used over the next ten years? (b) What values for precision and integrity for non-GNSS dependent systems over the same timeframe will support assured PNT services and why? (c) Similarly, what level of synchronization to Coordinated Universal Time (UTC) is anticipated to be needed?

2. What may affect or prevent the adoption, integration, and operation of resilient PNT services and equipment?

3. (a) What system architectures or concepts could be conducive for PNT system resilience? (b) What features or capabilities in equipment or systems could provide effective protections or mitigations against interference or manipulation? (c) Which principles of cybersecurity may be leveraged to achieve this? (d) What challenges may occur in integrating and using multiple PNT services within user equipment?

4. What R&D activities are currently being conducted, or planned, to develop non-GNSS dependent PNT services or equipment, or to improve the resilience of PNT services or equipment?

5. (a) What knowledge or capability gaps currently exist that, if filled, could contribute to improving resilience? (b) What R&D activities are best suited to help fill these gaps? (c) What role does the Federal government have to encourage and collaborate on these activities?

6. What additional information or suggestions could help inform the development of the R&D plan?

Thank you for taking the time to respond to this Request for Information. We appreciate your input.

Dated: August 3, 2020.

**Sean Bonyun,**

*Chief of Staff, The White House Office of Science and Technology Policy.*

[FR Doc. 2020-17399 Filed 8-7-20; 8:45 am]

**BILLING CODE 3270-F0-P**

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89476; File No. SR-BX-2020-017]

### Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various BX Rules in Connection With a Technology Migration

August 4, 2020.

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 July 23, 2020, Nasdaq BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 Options 1, Section 1 (Definitions); Options 2, Section 4 (Obligations of Market Makers and Lead Market Makers); Options 2, Section 5 (Market Maker Quotations); Options 3, Section 5 (Entry and Display of Orders); Options 3, Section 7 (Types of Orders and Quote Protocols); Options 3, Section 10 (Order Book Allocation); Options 3, Section 13 (Price Improvement Auction (“PRISM”)); Options 3, Section 22 (Limitations on Order Entry); and Options 3, Section 23 (Data Feeds and Trade Information). The Exchange also proposes to adopt a new Options 3, Section 12 titled “Crossing Orders.”

The text of the proposed rule change is available on the Exchange’s website at <https://listingcenter.nasdaq.com/rulebook/bx/rules>, 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 Options 1, Section 1 (Definitions); Options 2, Section 4 (Obligations of Market Makers and Lead Market

Makers); Options 2, Section 5 (Market Maker Quotations); Options 3, Section 5 (Entry and Display of Orders); Options 3, Section 7 (Types of Orders and Quote Protocols); Options 3, Section 10 (Order Book Allocation); Options 3, Section 13 (Price Improvement Auction (“PRISM”)); Options 3, Section 22 (Limitations on Order Entry); and Options 3, Section 23 (Data Feeds and Trade Information) and adopt a new Options 3, Section 12 titled “Crossing Orders” in connection with a technology migration to an enhanced Nasdaq, Inc. (“Nasdaq”) functionality which results in higher performance, scalability, and more robust architecture. With this system migration, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq Exchanges.

The Exchange intends to begin implementation of the proposed rule change prior to October 30, 2020. The Exchange will issue an Options Trader Alert to Participants to provide notification of the symbols that will migrate, the relevant dates and operative dates for specific functionalities.

###### Options 1, Section 1

The Exchange proposes to amend the definition of “Public Customer” to conform to Nasdaq PHLX LLC’s (“Phlx”) definition at Options 1, Section 1(b)(46). The Exchange believes that making clear that a Public Customer could be a person or entity and stating that a Public Customer is not a Professional, as defined within Options 1, Section 1(a)(48),<sup>3</sup> will make clear what it meant by that term. Today, a Public Customer is not a Professional. The term “Professional” is separately defined, within BX Options 1, Section 1(a)(48). In order to properly represent orders entered on the Exchange, Participants are required to indicate whether orders are “Professional Orders.” To comply with this requirement, Participants are required to review their Public Customers’ activity on at least a quarterly basis to determine whether orders, that are not for the account of a broker-dealer, should be represented as Public Customer Orders or Professional Orders.<sup>4</sup> A Public

<sup>3</sup> BX Options 1, Section 1(a)(48) provides that, “The term ‘Professional’ means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.”

<sup>4</sup> Participants conduct a quarterly review and make any appropriate changes to the way in which they are representing orders within five days after the end of each calendar quarter. While Participants

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

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

Customer may be a Professional, provided they meet the requirements specified within BX Options 1, Section 1(a)(48). If the Professional definition is not met, the order is treated as a Public Customer order.

The Exchange also proposes to remove a sentence within Options 1, Section 1(a)(48) which provides, "A Participant or a Public Customers may, without limitation, be a Professional." This sentence is confusing, unnecessary, and adds no information to this defined term. Phlx Options 1, Section 1(b)(46) does not contain a similar sentence. BX proposes removing this sentence.

The Exchange also proposes to remove sentences, within Options 3, Sections 10(a)(1)(C)(1)(a) and 10(a)(2)(i), Options 3, Section 13, in the introductory paragraph, and Options 3, Sections 13(ii)(E)(1) and (F)(1), which allocation and PRISM rules, respectively, provide that a Public Customer does not include a Professional. Today, the definition of a Public Customer does not explicitly exclude a Professional. The language that the Exchange proposes to delete currently indicates that Professionals would not be treated the same as a Public Customer in terms of priority and, therefore, would not receive the same allocation that is reserved for Public Customer orders. Since BX is amending the definition of a Public Customer to explicitly exclude Professionals, the language in the PRISM and allocation rules are no longer necessary to distinguish these two types of market participants.

#### Bid/Ask Differentials

Currently, BX Market Maker intra-day quoting requirements, within Options 2, Section 5(d)(2), provide,

Bid/ask Differentials (Quote Spread Parameters). Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security. The Exchange may establish differences other than the above for one or more series or classes of options.

only will be required to review their accounts on a quarterly basis, if during a quarter the Exchange identifies a customer for which orders are being represented as Public Customer Orders but that has averaged more than 390 orders per day during a month, the Exchange will notify the Participant and the Participant will be required to change the manner in which it is representing the customer's orders within five days.

The Exchange proposes to amend BX Options 2, Section 5(d)(2) to add the words "Intra-Day" before the title "Bid/ask Differentials (Quote Spread Parameters)" to make clear that these requirements are intra-day. Additionally the Exchange is deleting the words "including before and during the opening." The bid/ask differentials, within BX Options 2, Section 5(d)(2), will apply intra-day only. The bid/ask differentials applicable to the opening are noted within current Options 3, Section 8(a)(6).<sup>5</sup> It is not necessary to discuss the opening bid/ask differentials within Options 2, Section 5, as those differentials are set forth within current Options 3, Section 8(a)(6).<sup>6</sup> The bid/ask differentials, within BX Options 2, Section 5(d)(2), will apply intra-day only.

The Exchange also proposes to amend BX Rules at Options 2, Section 4(f)(4)–(6) (Obligations of Market Makers and Lead Market Makers), which specify quoting requirements for Lead Market Makers. Today, BX's Rules at Options 2, Section 4(f)(4)–(6) provides,

(4) Options traded on the Trading System may be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid.

(5) BX Regulation may establish quote width differences other than as provided in subparagraph (iv) for one or more options series.

(6) In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsections (f)(4) and (5), the permissible price differential for any in-the-money option series may be identical to those in the underlying security market. In the case of the at-the-money and out-of-the-money series, BX Regulation may waive the requirements of subsections (f)(4) and (5) on a case-by-case basis when the bid/ask differential for the underlying security is greater than .50. In such instances, the bid/ask differentials for the at-the-money series and the out-of-the-money series may be half as wide as the bid/ask differential in the underlying security in the primary market. Exemptions from subsections (f)(4) and (5) are subject to Exchange review. BX Regulation must file a report with BX operations setting forth the time and duration of such exemptive relief and the reasons therefore.

<sup>5</sup> Current BX Options 3, Section 8(a)(6) provides, "Valid Width National Best Bid or Offer" or "Valid Width NBBO" shall mean the combination of all away market quotes and any combination of BX Options-registered Market Maker orders and quotes received over the SQF Protocols within a specified bid/ask differential as established and published by the Exchange. The Valid Width NBBO will be configurable by underlying, and tables with valid width differentials will be posted by BX on its website. Away markets that are crossed will void all Valid Width NBBO calculations. If any Market Maker orders or quotes on BX Options are crossed internally, then all such orders and quotes will be excluded from the Valid Width NBBO calculation."

<sup>6</sup> *Id.*

Today, Options 2, Section 4(f)(5) indicates that Exchange may establish other quote differences. Options 2, Section 4(f)(6) explains the manner in which such quote differences may be established by the Exchange. BX proposes to amend BX's Lead Market Maker quoting requirements by conforming the rule to proposed BX Options 2, Section 5(d)(2), which applies to BX Market Makers. Specifically, the Exchange proposes to replace Options 2, Section 4(f)(4)–(6) with the same rule text proposed, within BX Options 2, Section 5(d)(2), in order that BX Market Makers and Lead Market Makers have the same standards apply to their intra-day quotes.

With this change, BX would continue to require Lead Market Makers to quote with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. However, instead of requiring Lead Market Makers to quote a price differential for any in-the-money option series identical to those in the underlying security market, in the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsections (f)(4) and (5), the Exchange would now permit the bid/ask differential to be as wide as the spread between the national best bid and offer in the underlying security when the market for the underlying security is wider than \$5, as is the case today for BX Market Makers. This amendment would permit Lead Market Makers to quote as wide as Market Makers on BX quote today.<sup>7</sup> Further, the Exchange would have discretion, as on other options markets, to widen the bid/ask differential.<sup>8</sup>

<sup>7</sup> Phlx Options 2, Section 4(c)(1) describes bid/ask differential requirements for Market Makers and Lead Market Makers on Phlx. Phlx's standards are similar to the standards proposed for BX Lead Market Makers. Phlx Options 2, Section 4(c)(1) provides, "Options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, provided that the foregoing bid/ask differentials shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options."

<sup>8</sup> Today, all options exchanges grant relief to market making participants, based on current market conditions, to enable those participants to provide liquidity in the marketplace without the need to constantly refresh their quotes to balance their risk in markets where stock prices are unstable. See <https://www.miaxoptions.com/alerts/>;

As proposed, the Exchange would remove the rule text which describes the additional allowance for at-the-money and out-of-the-money series, where BX Regulation may waive the requirements of subsections (f)(4) and (5) on a case-by-case basis when the bid/ask differential for the underlying security is greater than .50. In these cases, pursuant to paragraph (f)(6), the bid/ask differentials for the at-the-money series and the out-of-the-money series may be half as wide as the bid/ask differential in the underlying security in the primary market. Today, exemptions from subsections (f)(4) and (5) are subject to Exchange review.<sup>9</sup> The additional allowance and exemptions are no longer necessary because the Exchange proposes to add rule text, similar to BX Options 2, Section 4(f)(5) and BX Options 5, Section 5(d)(2), which permits BX to establish differences other than the stated bid/ask differentials, for one or more series or classes of options. The ability to establish differences, other than the stated bid/ask differentials, for one or more series or classes of options already exists today for BX Lead Market Maker quoting requirements, however this discretion is limited by BX Options 2, Section 4(f)(6).<sup>10</sup> The Exchange's proposal would align the procedure BX would follow with procedures of other Nasdaq options exchanges, which notify members in writing, via an Options Regulatory Alert, of any discretion that is being granted by the Exchange. BX would no longer file a report with BX operations. Today, no other Nasdaq exchange files a report when it grants exemptions, including exemptions for BX Market Makers. Decisions to grant exemptions are made based on current market conditions. BX is required to react swiftly when market conditions change dramatically and, thereby, may require BX to grant quoting relief. The additional steps that are currently required on BX are not conducive to granting relief in fast changing markets. In addition, the proposed quoting requirements for BX Lead Market Makers and Market Makers is consistent with requirements on other Nasdaq Affiliated Markets that have both Lead Market Makers and Market Makers.<sup>11</sup>

<http://markets.cboe.com/us/options/notices/system/>; <https://boxoptions.com/system-alerts/> and <https://www.nyse.com/market-status/history>.

<sup>9</sup> BX Regulation must file a report with BX operations setting forth the time and duration of such exemptive relief and the reasons therefor.

<sup>10</sup> See BX Options 2, Section 4(f)(5).

<sup>11</sup> See Phlx at Options 2, Section 4(c) and ISE, GEMX and MRX Rules at Options 2, Section 4(b)(4). ISE, GEMX and MRX utilize the term Primary Market Maker instead of Lead Market Maker.

Other options markets do not limit the quote relief they would grant their lead market makers in the same manner as BX limits quote relief for its Lead Market Makers. Today, BX limits its Lead Market Makers to quote relief which may not be greater than half as wide as the bid/ask differential.<sup>12</sup>

### Options 3, Section 5

The Exchange proposes to amend Options 3, Section 5(c) to add additional rule text similar to Phlx Options 3, Section 5(c). BX's current Options 3, Section 5(c) states, "The System automatically executes eligible orders using the Exchange's displayed best bid and offer ("BBO")." The Exchange proposes to state, "The System automatically executes eligible orders using the Exchange's displayed best bid and offer ("BBO") or the Exchange's non-displayed order book ("internal BBO") if the best bid and/or offer on the Exchange has been repriced pursuant to subsection (d) below." Today, BX re-prices certain orders to avoid locking and crossing away markets, consistent with its Trade-Through Compliance and Locked or Crossed Markets obligations.<sup>13</sup> Orders which lock or cross an away market will automatically re-price one minimum price improvement inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price.<sup>14</sup> The re-priced order is displayed on OPRA. The order remains on BX's Order Book and is accessible at the non-displayed price. For example, a limit order may be accessed on BX by a Participant if the limit order is priced better than the NBBO. The Exchange believes that the addition of this rule text will allow BX

<sup>12</sup> See ISE and GEMX at Options 2, Section 5, Miami International Securities Exchange LLC Rule 503(e)(2), BOX Exchange LLC Rule 8040 and NYSE American LLC Rule 925NY(b)(5) and (c).

<sup>13</sup> BX Options 3, Section 5(d) provides, "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."

<sup>14</sup> See Options 5, Section 4 (Order Routing), which describes the repricing of orders for both routable and non-routable orders within Options 5, Section 4(a)(iii)(A), (B) and (C).

to define an "internal BBO" within its rules when describing re-priced orders that remain on the Order Book and are available at non-displayed prices, which are resting on the Order Book.

### Options 3, Section 7

The Exchange proposes to amend the Cancel-Replacement Order, within Options 3, Section 7(a)(1). By way of background with respect to cancelling and replacing an order, a Participant has the option of either submitting a cancel order and then separately submitting a new order, which serves as a replacement of the original order, in two separate messages, or submitting a single cancel and replace order in one message ("Cancel-Replacement Order"). Submitting a cancel order and then separately submitting a new order will not retain the priority of the original order.

Currently, the rule text for Cancel-Replacement Order provides, "Cancel-Replacement Order shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order except when the replacement order reduces the size of the order and all other terms and conditions are retained." The Exchange proposes to replace the words "shall mean" with "is" and remove the final sentence of the rule text.<sup>15</sup> The Exchange proposes to add a new sentence to the end of the rule which provides, "The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, and the size is not increased." Unlike the sentence proposed for deletion, the proposed sentence states in the affirmative the conditions under which the Cancel-Replacement Order will retain priority. Price and size are the terms that will determine if the Cancel-Replacement Order retains its priority, as is the case today, other terms and conditions do not amend the priority of the Cancel-Replacement Order.

The Exchange is not amending the current System functionality of a

<sup>15</sup> The final sentence of current BX Options 3, Section 7(a)(1) provides, "The replacement order will not retain the priority of the cancelled order except when the replacement order reduces the size of the order and all other terms and conditions are retained."

Cancel-Replacement Order with respect to the terms that will cause the order to lose priority. Both today, and with the proposed change, if a Participant did not change the size of the order, it would not trigger a loss in priority. Today the Exchange's rule describes changes to priority with respect to reducing size. The proposed rule describes changes to priority with respect to increasing size. If the Participant does not change the size of the order, a consideration of loss in priority is not relevant. The rule is intended to provide transparency regarding changes to an a Cancel-Replacement Order which would trigger a loss in priority. Today, and with the proposal, the price of the order may not be changed when submitting a Cancel-Replacement Order; that would be a new order.

The Exchange further proposes to provide, "If the replacement portion of a Cancel-Replacement Order does not satisfy the System's price or other reasonability checks (e.g. Limit Order Price Protection and Market Order Spread Protection, within Options 3, Section 15(a)(1) and (a)(2), respectively); the existing order shall be cancelled and not replaced." The Limit Order Price Protection and Market Order Spread Protection are the only risk protections within Options 3, Section 15 (Risk Protections) that are applicable. Price or other reasonability checks consider the current market at the time the Cancel-Replacement Order is entered. The Exchange proposes to begin applying price or other reasonability checks to all Cancel-Replacement Orders, similar to Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") to provide market participants with additional risk protection checks with the re-entry of the Cancel-Replacement Order. This proposed rule is similar to ISE, GEMX and MRX Rules at Options 3, Section 7 at Supplementary Material .02, except that ISE, GEMX and MRX discuss Reserve Orders, which are not available on BX.<sup>16</sup> All risk protections are noted

<sup>16</sup> ISE, GEMX and MRX Options 3, Section 7 at Supplementary Material .02, provides, "Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B)); and

within Options 3, Section 15. Those risk protections apply throughout the Rulebook, except where otherwise noted.

The Exchange proposes to amend "Directed Order," within Options 3, Section 7(a)(2). The Exchange proposes to remove the text, "Directed Order, The term" and replace "means" with "is." These amendments are technical and non-substantive. The Exchange is otherwise not amending the Directed Order rule text.

The Exchange proposes to amend "Limit Order," within Options 3, Section 7(a)(3). The Exchange proposes to style "Limit Orders" in the singular and change "are" to "is an" and "orders" to "order." A Limit Order on BX operates in the same manner as a Limit Order on ISE, GEMX and MRX. The Exchange proposes to conform the rule text of BX's Limit Order to ISE, GEMX and MRX Options 3, Section 7(b) and add the sentence describing marketable limit orders. The Exchange proposes to state, "A marketable limit order is a limit order to buy (sell) at or above (below) the best offer (bid) on the Exchange." The Exchange believes that the rule amendment more aptly describes a marketable limit order as compared to the current rule text, which is confusing, but was intended to convey the substance of the proposed text. The new sentence does not substantively amend the current rule text.

The Exchange proposes to amend "Minimum Quantity Orders," within Options 3, Section 7(a)(4). The Exchange proposes to style "Minimum Quantity Orders" in the singular and change "are" to "is an" and "orders" to "order." These amendments are technical and non-substantive. The Exchange is otherwise not amending the Minimum Quantity Order rule text.

The Exchange proposes to amend "Market Orders," within Options 3, Section 7(a)(5). The Exchange proposes to style "Market Orders" in the singular and change "are" to "is an" and "orders" to "order." These amendments are technical and non-substantive. The Exchange also proposes to add a notation at the end of the rule to make clear that "Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant, once an option series has opened for trading." Market Orders submitted during the opening may be executed,

Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced."

routed (depending on instructions from the market participant) or cancelled if the Market Order is priced through the opening price. The Exchange would only cancel those Market Orders that remained on the Order Book once an option series opened. The pre-established period of time would commence once the intra-day trading session begins for that options series and the order would be cancelled back to the Participant, provided the Participant elected to cancel back its Market Orders. The Exchange proposes to make clear that while the opening is on-going, and the intra-day trading session has not commenced, the pre-established period of time would not commence. Further, the Exchange proposes to note that "Market Orders on the Order Book would be immediately cancelled if an options series halted, provided the Participant designated the cancellation of Market Orders." Once an options series halts for trading, the Exchange conducts another Opening Process. In the case where a Market Order was resting on the Order Book, and the Participant had designated the cancellation of Market Orders, in the event of a halt, the Market Orders resting on the Order Book would immediately cancel. The Exchange believes that this additional rule text brings greater clarity to the Market Order type.<sup>17</sup>

The Exchange proposes to amend "Intermarket Sweep Order" or "ISO," within Options 3, Section 7(a)(6). Today, the rule text provides,

(6) "Intermarket Sweep Order" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by BX and are executed within the System by Participants at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Options 5, Section 1. ISOs may have any time-in-force designation except WAIT, are handled within the System pursuant to Options 3, Section 10 and shall not be eligible for routing as set out in Options 3, Section 19. ISOs with a time-in-force designation of GTC are treated as having a time-in-force designation of Day.

(1) Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed size of any protected bid or offer (as defined in Options 5, Section 1) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an intermarket

<sup>17</sup> See The Nasdaq Options Market ("NOM") Rules at Options 3, Section 7(a)(4), which provides, "Market Orders" are orders to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant."

sweep order (as defined in Options 5, Section 1). These additional routed orders must be identified as ISOs.

The Exchange proposes to replace the current rule, within Options 3, Section 7(a)(6), with the following text to describe an ISO Order, “is a Limit Order that meets the requirements of Options 5, Section 1(8). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K). ISOs must have a time-in-force designation of Immediate-or-Cancel. ISO Orders may not be submitted during the opening.” This rule text is identical to Phlx Options 3, Section 7(b)(3), except that BX Rules provide that an ISO must have a time-in-force designation of Immediate-or-Cancel, as proposed.

The Phlx rules do not have this restriction on ISO Orders.<sup>18</sup> An ISO Order is a Limit Order, as noted in the current text and Options 5, Section 1 continues to be referenced in the proposed text. The Exchange continues to note that the orders are not routable. The additional text, “. . . will ignore the ABBO and trade at allowable prices on the Exchange” is more precise than the current rule text and describes current functionality. The Exchange further proposes to state, “ISOs maybe entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K).” That is also the case today. The remainder of the current rule text is not necessary as Options 5, Section 1 is cited. Removing the current rule text and replacing it with rule text similar to Phlx, is not proposed to change the functionality of an ISO Order. The proposed text merely describes the ISO Order similar to Phlx. The Exchange believes the proposed description provides a more succinct description.

The Exchange does propose to amend the current functionality of an ISO Order to require that ISOs have a time-in-force designation of Immediate-or-Cancel (“IOC”) within Options 3, Section 7(b)(2). Today, the rule provides that ISOs may have any time-in-force designation, except WAIT, and further requires that ISOs with a time-in-force

<sup>18</sup> Phlx Options 3, Section 7(b)(3) provides, “Intermarket Sweep Order. An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Options 5, Section 1. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into PIXL pursuant to Options 3, Section 13 (b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Options 3, Section 8.”

designation of GTC are treated as having a time-in-force designation of Day.<sup>19</sup> With this proposal, the Exchange would only continue to allow a time-in-force of IOC. The Exchange proposes to remove the WAIT time-in-force within this proposed rule change and, therefore, WAIT no longer needs to be cited. The Exchange is proposing a TIF designation of IOC for an ISO Order, which would cause an ISO Order to cancel in whole or in part upon receipt, in the event that the ISO Order does not execute or does not entirely execute, because an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. ISO Orders have a limited purpose and should be cancelled if they do not execute or do not entirely execute.

The Exchange proposes to no longer offer the “One-Cancels-the-Other Order.” The Exchange will no longer permit this order type with the technology migration. This order type is not in demand on BX. The Exchange would file a rule change with the Commission if it decides to offer this order type in the future.

The Exchange proposes to amend the “All-or-None Order,” within Options 3, Section 7(a)(8). The Exchange proposes to renumber this rule text as Options 3, Section 7(a)(7) The Exchange proposes to replace “shall mean” with “is” and change “opening cross” to simply “opening.” These proposed amendments are technical and non-substantive.

The Exchange proposes to add a “PRISM Order” to the list of order types at proposed Options 3, Section 7(a)(10). The Exchange proposes to define this existing order type by cross-referencing Options 3, Section 13, which explains the order type.

The Exchange proposes to add a “Customer Cross Order” to the list of order types at proposed Options 3, Section 7(a)(11). The Exchange proposes to define this existing order type by cross-referencing Options 3, Section 12(a), which explains the order type.

The Exchange proposes to amend Options 3, Section 7(b) to define “Time in Force” as “TIF”.

The Exchange proposes to amend an “Immediate-Or-Cancel” Order or “IOC,” within Options 3, Section 7(b)(2) to add hyphens and make “Or” lowercase. The Exchange proposes to remove the current description which provides that

<sup>19</sup> Today, BX’s System does not treat an ISO with a time-in-force designation of GTC as having a time-in-force designation of Day, as provided for within BX’s current rule at Options 3, Section 7(a)(6). The Exchange’s proposed amendment would prevent ISOs from having any designation, other than IOC.

an IOC Order, “shall mean for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable.” The Exchange proposes to replace this description with rule text similar to Phlx Options 3, Section 7(c)(2) as these order types are identical. The Exchange proposes to state that an Immediate-or-Cancel Order or “IOC” Order is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. Further, with respect to IOC Orders,

(A) Orders entered with a TIF of IOC are not eligible for routing.

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a Market Maker through SQF is not subject to the Limit Order Price Protection or the Market Order Spread Protection in Options 3, Section 15(a)(1) and (a)(2), respectively;

(C) Orders entered into the Price Improvement Auction (“PRISM”) Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) Executed after an exposure period, or (2) cancelled.

Options 5, Section 4(a) provides, that IOC Orders will be cancelled immediately if not executed, and will not be routed. The Exchange is proposing to memorialize this information within the description of an IOC Order. The Exchange also proposes to note that IOC Orders may be entered through FIX or SQF.<sup>20</sup> The Exchange

<sup>20</sup> BX Options 3, Section 7(d)(1)(A) notes that orders may be entered through FIX and Options 3, Section 7(d)(1)(B) specifies that “Immediate-or-Cancel Orders may be entered through SQF.”

“Financial Information eXchange” or “FIX” is described in Options 3, Section 7(d)(1)(A) as an interface that allows Participants and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) Execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.

“Specialized Quote Feed” or “SQF” is described in Options 3, Section 7(d)(1)(B) as 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)

also proposes to note that an IOC Order entered by a Market Maker through SQF is not subject to the Limit Order Price Protection or the Market Order Spread Protection in Options 3, Section 15(a)(1) and (a)(2), respectively. The Order Price Protection and Market Order Spread Protection, while available for orders, are not available on SQF. These exceptions are provided for within this proposed rule to ensure that this information is available to market participants within the description of IOC.

The Exchange proposes to add rule text to the SQF protocol, within proposed Options 3, Section 7(e)(1)(B), which provides, “Immediate-or-Cancel Orders entered into SQF are not subject to the Limit Order Price Protection or the Market Order Spread Protection in Options 3, Section 15(a)(1) and (a)(2), respectively.” Adding this exception to the SQF protocol as well as the TIF of “IOC” will make clear that these order protections shall not apply to IOC Orders entered through SQF.

Also, the proposed rule would also specify that orders entered into the PRISM Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) Executed after an exposure period, or (2) cancelled.<sup>21</sup> The Exchange believes that adding these new details to the manner in which IOC Orders are handled within the System will bring greater transparency to these order types.

The Exchange proposes to amend the TIF of “DAY” at Options 5, Section 7(b)(3) to remove the words “shall mean for orders” and add “is an order” to conform the rule text to other text in this rule. The Exchange also proposes to conform the description of a TIF of “DAY” similar to Phlx Options 3, Section 7(c)(1).<sup>22</sup> The Exchange believes that the remainder of the description for a Day Order, “if after entry into the System, the order is not fully executed, the order (or unexecuted portion

thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. Day Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close,” is unnecessarily verbose and proposes to remove this rule text. The Exchange proposes to state, “Day” is an order entered with a TIF of “Day” that expires at the end of the day on which it was entered, if not executed. All orders by their terms are Day Orders unless otherwise specified. Day Orders may be entered through FIX. A Day Order on Phlx functions in the same way as a Day Order on BX. The Phlx rule text is more succinct in describing this order type.

The Exchange proposes to amend the TIF of “Good Til Cancelled” or “GTC” at Options 5, Section 7(b)(4). The Exchange proposes to remove the words “shall mean for orders” and add “is an order.” The Exchange also proposes to conform the rule text similar to Phlx Options 3, Section 7(c)(4),<sup>23</sup> and provide that a “Good Til Cancelled” or “GTC” is “an order entered with a TIF of “GTC” that, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.” A GTC Order on Phlx functions in the same way as a GTC Order on BX. The Exchange is not proposing to amend the functionality of a GTC Order, rather the

Exchange believes the proposed description is more succinct.

The Exchange proposes to no longer offer a TIF of “WAIT.” The Exchange would remove the rule text at BX Options 3, Section 7(b)(5). If the Exchange desires to offer this TIF in the future, it would file a proposed rule change with the Commission pursuant to Section 19(b)(1) of the Act.<sup>24</sup>

The Exchange proposes to note, within BX Options 3, Section 7(c), the various routing options which are available. The Exchange proposes to add rule text which provides, “Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Options 5, Section 4 through FIX only.” These routing strategies are consistent with a recent rule change filed to amend routing strategies.<sup>25</sup>

Finally, the Exchange proposes to re-letter current Options 3, Section 7(c) and (d).

#### Options 3, Section 10

The Exchange proposes to amend its Order Book allocation rule, within Options 3, Section 10, to amend the manner in which rounding occurs.

Today, BX rounds up or down to the nearest integer when it allocates and any residual contract after rounding, if rounding would result in an allocation of less than one contract, would be allocated to the Lead Market Maker. The Exchange is amending the rounding methodology to round up to the nearest integer. Options 3, Section 10 is being amended to reflect the new methodology. Each exchange has a different rounding methodology.<sup>26</sup> The Exchange is opting to round up and not down, uniformly for all Participants, and disclose that rounding methodology directly within Options 3, Section 10, so that all Participants are aware of the rounding methodology that would be utilized by the System. Today, rounding is down, as specified in the Exchange’s Rules. In addition, if the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because it is rounding up, the provisions which describe allocations for remainders of

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.

<sup>21</sup> The TIF of IOC is applied to all PRISM Orders today.

<sup>22</sup> Phlx Options 3, Section 7(c)(1) provides, “Day. If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.”

<sup>23</sup> Phlx Options 3, Section 7(c)(4) provides, “A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.”

<sup>24</sup> 15 U.S.C. 78s(b)(1).

<sup>25</sup> The Exchange separately filing to amend the routing strategies and adopt “FIND”. See SR-BX-2020-7P.

<sup>26</sup> Phlx rounds down. See Options 3, Section 10. See also Securities Exchange Act Release No. 85876 (May 16, 2019), 84 FR 23595 (May 22, 2019) (SR-Phlx-2019-20) (Notice of Filing of Proposed Rule Change Relating to the Allocation and Prioritization of Automatically Executed Trades).

less than one contract cannot occur and therefore this rule text is being removed, as such remainders would not be mathematically possible. The Exchange believes that rounding up uniformly is consistent with the Act because it provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes.

#### Options 3, Sections 12 and 22

Today, the Exchange permits an Initiating Participant to enter a PRISM Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PRISM Auction.<sup>27</sup> The execution price for such a PRISM Order must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or trade at the same price as any resting Public Customer order.<sup>28</sup> The Exchange proposes to remove the ability to enter Public Customer-to-Public Customer paired orders directly into PRISM for automatic execution and instead require them to be entered through FIX, directly as Customer Cross Orders. Today, a Public Customer-to-Public Customer paired order could only be entered into PRISM to receive the treatment described within proposed Options 3, Section 13(vi). With this proposal, the manner in which Public Customer-to-Public Customer paired orders are being processed by the System is changing. With this proposal, Participants may enter Public Customer-to-Public Customer paired orders directly into FIX and receive the same treatment that these orders receive today when entered into PRISM. The only difference to a Participant is the manner in which the order must now be submitted, via FIX, to post a Public Customer-to-Public Customer Cross.

The Exchange proposes to adopt the term "Crossing Orders" within Options 3, Section 12, which is currently reserved, to describe this process.

Today, ISE, GEMX and MRX permit Customer Cross Orders as proposed herein.<sup>29</sup> The Exchange proposes to adopt Customer Cross Orders, within Options 3, Section 12(a), similar to ISE, GEMX and MRX Options 3, Section 12(a) as follows:

Public Customer-to-Public Customer Cross Orders are automatically executed upon entry provided that the execution is at or between the best bid and offer on the Exchange and (i) is not at the same price as a Public Customer Order on the Exchange's limit order book and (ii) will not trade through the NBBO. Public Customer-to-Public Customer Cross Orders must be entered through FIX.

(1) Public Customer-to-Public Customer Cross Orders will be rejected if they cannot be executed.

(2) Public Customer-to-Public Customer Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

(3) Options 3, Section 22(b)(1) applies to the entry and execution of Customer Cross Orders.

In particular, the Exchange proposes to add a definition of a Customer Cross Order specifying that a Customer Cross Order is comprised of a Public Customer Order to buy and a Public Customer Order to sell at the same price and for the same quantity. The Exchange proposes to adopt Options 3, Section 12(a) specifying that Public Customer-to-Public Customer Cross Orders are automatically executed upon entry provided that the execution is at or between the best bid and offer on the Exchange. Further, the execution would not be at the same price as a Public Customer Order on the Exchange's limit order book, nor trade through the NBBO. Public Customer-to-Public Customer Cross Orders must be entered through FIX for execution pursuant to proposed Options 3, Section 12(a). As noted below in the PRISM discussion, a Public Customer-to-Public Customer order submitted into PRISM directly would be subject to execution pursuant to Options 3, Section 13(i) and (ii). The Exchange is removing the current provisions within Options 3, Section 13(vi) with this proposed rule change. The proposed rule also specifies that Public Customer-to-Public Customer Cross Orders will be rejected if they cannot be executed and Public Customer-to-Public Customer Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

Current BX Options 3, Section 13(vi) provides,

In lieu of the procedures in paragraphs (i)–(ii) above, an Initiating Participant may enter a PRISM Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PRISM Auction, provided there is not currently another auction in progress in the same series, in which case the orders will be cancelled. The execution price for such a PRISM Order must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or trade at the same price as any resting Public Customer order.

The Exchange is eliminating BX Options 3, Section 13(vi) because Public Customer-to-Public Customer Cross Orders would no longer be entered as PRISM Orders. With this proposal Public Customer-to-Public Customer Cross Orders would be entered through FIX as a Customer Cross Order. The prohibition expressed within current BX Options 3, Section 13(vi) provided for only one PRISM Auction to be conducted at a time in any given series. Today, to initiate the Auction, the Initiating Participant must mark the PRISM Order for Auction processing. With this proposal, Public Customer-to-Public Customer Cross Orders would not be tagged as a PRISM Auction. The Public Customer-to-Public Customer Cross Orders would be entered as a separate cross and therefore would not potentially cause more than one PRISM Auction to occur in the same series.

BX also proposes to add that Options 3, Section 22(a)(1),<sup>30</sup> which is similar to ISE Supplementary Material .01 to Options 3, Section 22, applies to the execution of Customer Cross Orders. In conjunction with this change, BX proposes to add Customer Cross Order to Options 3, Section 22(a) and (c) as an exception to the rules for limitations on principal transactions and solicitation orders, which require Participants to expose trading interest to the market before executing agency orders as principal or before executing agency

<sup>30</sup> BX Options 3, Section 22(a)(1) provides, "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 this Rule for an Options Participant to be a party to any arrangement designed to circumvent this Rule 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."

<sup>27</sup> See Options 3, Section 13(vi).

<sup>28</sup> *Id.*

<sup>29</sup> See ISE, GEMX and MRX Options 3, Section 12(a).

orders against orders that were solicited from other broker-dealers.

Options 3, Section 22(a)(1) contains language similar to current BX Options 3, Section 13(vi)(A) and, therefore, would continue to prevent a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book. The Exchange proposes to add a sentence to the end of current BX Options 3, Section 22(a)(1), which currently exists within BX Options 3, Section 13(vi)(A).<sup>31</sup> Specifically, the Exchange proposes to add “Further, it would be a violation of this Rule for an Options Participant to circumvent this Rule by providing an opportunity for (A) a Public Customer affiliated with the Participant, or (B) a Public Customer with whom the Participant has an arrangement that allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as Public Customer-to-Public Customer immediate crosses.” The addition of this sentence to BX Options 3, Section 22(a)(1) will continue to make clear the type of behavior that is prohibited when executing Public Customer-to-Public Customer Cross Orders. Specifically, the Exchange notes that Options 3, Section 22 may not be circumvented by providing an opportunity for (A) a Public Customer affiliated with the Participant, or (B) a Public Customer with whom the Participant has an arrangement that

allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal. The Exchange would surveil Public Customer-to-Public Customer Cross Orders in the same fashion that it already surveils for these orders on ISE, GEMX and MRX. ISE Supplementary Material .01 to Options 3, Section 22 on ISE, GEMX and MRX and proposed BX Options 3, Section 22(a)(1) both prevent a executions of agency orders to increase its economic gain from trading against the order without first giving other trading interests on the exchange an opportunity to either trade with the agency order or to trade at the execution price when a market participant was already bidding or offering on the book.

#### Options 3, Section 13

The Exchange proposes to amend Options 3, Section 13, which describes the Price Improvement Auction or “PRISM.”

Similar to ISE, GEMX and MRX Options 3, Section 13, the Exchange proposes to amend its System functionality to better any limit order or quote on the limit order book on the same side of the market as the PRISM Order, within Options 3, Section 13(i)(A) and (B). Today, Options 3, Section 13 only considers orders. With the technology migration, the Exchange proposes, similar to ISE, GEMX and MRX’s rules at Options 3, Section 13, to consider quotes as well. The Exchange is proposing to add “or quote,” within Options 3, Sections 13(i) and (A) and (B) and (ii)(A)(1). The addition of “quotes,” similar to ISE, GEMX and MRX at Options 3, Section 13, will enable the Exchange to consider additional interest on the Order Book at time a PRISM Auction is initiated. The Exchange believes expanding its consideration to both quotes and orders will consider a greater amount of interest present on BX’s Order Book when initiating a PRISM.

In various places, within Options 3, Section 13, where the Exchange cites to the minimum increment rule at Options 3, Section 3, the Exchange proposes to instead simply state the minimum increment allowable directly within the rule. For example, BX proposes to amend Options 3, Section 13(i)(A) and (B) to remove the rule text which states, “at one minimum price improvement increment,” and “at least one minimum trading increment specified in Options 3, Section 3 (“Minimum Increment”)” and “the Minimum Increment,” respectively, and instead simply state “\$0.01” within the rule text. This amendment does not amend the current

System operation, rather it more simply states what that minimum increment is today. The Exchange proposes a similar change at Options 3, Section 13(ii)(A)(1) by proposing to remove “one Minimum Increment” and replace that text with “\$0.01.” Finally, the Exchange proposes to amend Options 3, Section 13(ii)(A)(6) to replace a reference to “the minimum price improvement increment established pursuant to subparagraph (i)(A) above” with “\$0.01.”

The Exchange also proposes technical amendments to capitalized the “if” within Options 3, Section 13(i)(A) and add an “If” before Options 3, Section 13(i)(B) to conform the rule text.

The final amendment proposed to Options 3, Section 13(ii)(A)(1) is to amend the System functionality with respect to Surrender. Today, a Surrender feature is available on BX, which permits the Initiating Participant to forfeit completely its priority and trade allocation privileges. The text related to Surrender, within Options 3, Section 13(ii)(A)(1), currently provides,

When starting an Auction, the Initiating Participant may submit the Initiating Order with a designation of “surrender” to the other PRISM Participants (“Surrender”), which will result in the Initiating Participant forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per Section 9(ii)(E)(2)(a) and Section 9(ii)(F)(2)(a). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Participant than that which the Initiating Participant would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PRISM Order are Public Customer orders. Surrender information will not be available to other market participants and may not be modified.

The Exchange proposes to amend the first sentence of the above-referenced paragraph to describe “Surrender.” The Exchange proposes to state, “For purposes of this Rule, Surrender shall mean the target allocation percentage the contra-side requests to be allocated from 0% to 39%. If the Participant requests 40%, then the Participant would receive its full priority and trade allocation provisions that it would be entitled to pursuant to Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a).” The Exchange believes that this will make clear the manner in which the System will handle the percentage designation. The Exchange then proposes to amend the next sentence to provide, “When starting an

<sup>31</sup> Current Options 3, Section 13(vi)(A) provides, “Options 3, Section 22 prevents a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a Participant to establish a relationship with a Public Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Options 3, Section 22 for a Participant to circumvent Options 3, Section 22 by providing an opportunity for (i) a Public Customer affiliated with the Participant, or (ii) a Public Customer with whom the Participant has an arrangement that allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PRISM Public Customer-to-Public Customer immediate crosses.”



Auction, the Initiating Participant may submit the Initiating Order with a percentage designation (a percentage from 0% up to 40% as noted above) of “Surrender”, which will result in the Initiating Participant being allocated its designated percentage pursuant to Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a).” This proposed text would permit an Initiating Participant to submit an Initiating Order with a percentage for “Surrender” up to 40%, although the percentage may be lower. Today, the System permits a Participant to have either a Surrender of 0% or 40%. Today, ISE, GEMX and MRX Options 3, Section 13(e)(5)(iii), related to PIM Complex Orders, has a configurable Surrender provision.<sup>32</sup> The proposed text indicates that the percentage could be 40% or a lower percentage for priority and allocation by stating, “. . . which will result in the Initiating Participant being allocated its designated percentage pursuant to Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a).” This text similarly proposes to amend Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a) which describe Surrender percentages.

By way of example, an Initiating Participant may submit an Initiating Order with a “Surrender” percentage

<sup>32</sup> See ISE, GEMX and MRX Options 3, Section 13(e)(5)(iii) which provides, “In the case where the Counter-Side Complex Order is at the same net price as Professional interest on the Complex Order Book in (ii) above, the Counter-Side Complex Order will be allocated the greater of one (1) contract or forty percent (40%) (or such lower percentage requested by the Member) of the initial size of the Agency Complex Order before other Professional interest on the Complex Order Book are executed. Upon entry of Counter-Side Complex Orders, Members can elect to automatically match the price and size of Complex Orders, Improvement Complex Orders received on the Complex Order Book during the exposure period up to a specified limit net price or without specifying a limit net price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to Members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a Member elects to auto-match, the Counter-Side Complex Order will be allocated its full size at each price point, or at each price point within its limit net price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side Complex Order shall be allocated the greater of one contract or forty percent (40%) (or such lower percentage requested by the Member) of the original size of the Agency Complex Order, but only after Priority Customer Complex Orders and Improvement Complex Orders at such price point are executed in full. Thereafter, all Professional Complex Orders and Improvement Complex Orders at the price point will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Complex Order or Improvement Complex Order on the Complex Order Book.”

designation of up to forty percent (40%). If a surrender percentage designation of 40% is submitted, this would indicate no surrender.<sup>33</sup> If a surrender percentage designation between 0–39% is elected, this would indicate the Initiating Participant has surrendered their full 40% allocation entitlement and would retain only a lesser percentage designation that the Participant elected (between 0% and 39%). In this instance, the Initiating Participant will not be eligible to receive the highest possible allocation of fifty percent (50%). The 50% allocation is possible if only one other quote, or PAN response matches the stop price and the Initiating Participant has not chosen to designate any percentage designation of “Surrender.” A designation of Surrender will result in the Initiating Participant forfeiting all or a portion of their 40% enhanced allocation carve out to the other PRISM Participants. The percentage that is being submitted represents the percentage of allocation being requested by the contra-side party.

The Exchange proposes to amend the current rule text, within Options 3, Section 13(ii)(A)(1), which provides, “. . . forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per. . . .” This rule text is being removed in favor of simply citing directly to the allocation provisions (Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a)). Also, the current rule text, “with a designation of “surrender” to the other PRISM Participants (“Surrender”)” is being removed because the proposed rule text defines “Surrender” as the percentage designation, which the Exchange believes more accurately defines “Surrender” within the rule text.

The Exchange is revising the second sentence of Options 3, Section 13(ii)(A)(1), which currently provides, “If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price.” The Exchange proposes to instead provide, “If zero (0%) is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or

improve upon the stop price.” The Exchange believes that explaining if no percentage were elected for Surrender (0%) more clearly describes the remainder of the sentence which provides the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price, in light of the ability to configure the Surrender percentage with this proposal.

The Exchange proposes to amend Options 3, Section 13(ii)(A)(2) to add “price” as a detail which is specified today for a PRISM Auction Notification or “PAN.” Current Options 3, Section 13(ii)(A)(2) states, “When the Exchange receives a PRISM Order for Auction processing, a PAN detailing the side, size, and options series of the PRISM Order will be sent over the BX Depth feed and the Exchange’s Specialized Quote Feed.” The Exchange is amending the current functionality of PRISM to disseminate “price” in addition to side, size, and options series similar to ISE, GEMX and MRX.<sup>34</sup> Adding “price” to the list of details will provide Participants with greater transparency and could encourage more competition in PRISM and greater opportunity for potential price improvement in PRISM.

The Exchange proposes to amend Options 3, Section 13(ii)(A)(7), which currently provides, “A PAN response size at any given price point may not exceed the size of the PRISM Order. A PAN response with a size greater than the size of the PRISM Order will be immediately cancelled.” The Exchange is amending this rule in conjunction with the technology migration to conform the behavior of PAN responses to ISE, GEMX and MRX System behavior.<sup>35</sup> As noted above, the Exchange is amending the System to accept oversized responses. These responses will no longer cancel back, rather, PRISM will cap the response at the size of the PRISM Order for purposes of allocation. Any remaining interest from responses not filled during the PRISM Order allocation, including any response quantity in excess of the PRISM Order quantity, will be cancelled back to the Participant at the conclusion of the auction timer.

The Exchange proposes to amend Options 3, Section 13(ii)(A)(8) and (9) to replace the words “immediately cancelled” with “rejected.” These technical amendments are intended to

<sup>33</sup> Initiating Participants may submit a percentage for Surrender into the System, prior to submitting paired orders into PRISM. If the Initiating Participant submitted a percentage of 40% into the System, the Participant would receive its full priority and trade allocation provisions that it would be entitled to pursuant to Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a). Of note, if the Initiating Participant does not select a percentage, the System will populate the field with 40%, the default Surrender percentage.

<sup>34</sup> See ISE, GEMX and MRX Options 3, Section 13(c).

<sup>35</sup> See ISE, GEMX and MRX Options 3, Section 13(c)(2).

conform the text of the rule where a response would be sent back as unacceptable by the System by unacceptably noting the order would be “rejected.”

The Exchange proposes to amend Options 3, Section 13(ii)(C)<sup>36</sup> to replace “the Minimum Increment,” with “\$0.01”, which is the actual increment.

The Exchange proposes to amend Options 3, Section 13(ii)(E)(2)(a) to amend the System allocation to the Initiating Participant after Public Customer orders have been allocated. Today, the Exchange rule provides,

If the Initiating Participant selected the single stop price option of the PRISM Auction, PRISM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated, pursuant to Options 3, Section 13(ii)(E)(3) through (5) below, among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Participant. The allocation will account for Surrender, if applicable.

The Exchange proposes, similar to ISE, GEMX and MRX Options 3, Section 13(d)(3),<sup>37</sup> to base the priority allocation

<sup>36</sup> BX Options 3, Section 13(ii)(C) provides, “If the situations described in sub-paragraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at: (1) in the case of the BX BBO crossing the PRISM Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at least the Minimum Increment better than the price of such limit order at the time of the conclusion of the Auction; or (2) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.”

<sup>37</sup> ISE, GEMX and MRX Options 3, Section 13(d)(3), provides, “In the case where the Counter-Side Order is at the same price as Professional Interest in (d)(2), the Counter-Side order will be allocated the greater of one (1) contract or forty percent (40%) of the initial size of the Agency Order before Professional Interest is executed. Upon entry of Counter-Side orders, Members can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the Counter-Side order will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side order shall be allocated the greater of one contract or forty percent (40%) of the original size of the

of the Initiating Participant on the initial size of the Initiating Order after Public Customer interest is satisfied. The proposed rule text, within Options 3, Section 13(ii)(E)(2)(a), would provide, “If the Initiating Participant selected the single stop price option of the PRISM Auction, PRISM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% (or such lower percentage requested by the Initiating Participant) of the initial size of the PRISM Order after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price.” The Exchange states, “. . . or such lower percentage requested by the Initiating Participant” because as stated previously, the Surrender percentage can be a percentage up to 40%. The caveat in the second sentence also accounts for Surrender. The proposed second sentence provides, “However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price, provided the Initiating Participant had not designated a percentage designation of “Surrender” when initiating the Auction.” The Exchange proposes similar changes to Options 3, Section 13(ii)(E)(2)(b), Section 13(ii)(E)(2)(c)(ii), in two places, Section 13(ii)(F)(2)(a) and (b), and Section 13(ii)(F)(2)(c)(ii), in two places. The proposed changes do not impact the manner in which the Exchange allocates pursuant to price/time, size pro-rata and auto-match. In each of these places the Exchange is amending the rule text to remove the phrase “contracts remaining” and instead providing “initial size of the PRISM Order.” By way of example,

The NBBO and BX BBO are both 1 x 1.50 PRISM to buy 1000 is submitted with an Initiating Order to stop the PRISM Order at 1.20

PRISM begins. During the PRISM Auction: Public Customer PAN arrives to sell 600 @ 1.20

Firm 1 PAN to sell 1000 @1.20 arrives  
Firm 2 PAN to sell 1000 @1.20 arrives  
Current Rule: Public Customer allocated 600 @1.20, contra-side allocated 160 @1.20,  
Firm 1 and 2 each allocated 170 @1.20 (in this case contra-side allocated 40% of 400

Agency Order, but only after Priority Customer Interest at such price point are executed in full. Thereafter, all Professional Interest at the price point will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Interest. An election to automatically match better prices cannot be cancelled or altered during the exposure period.” See also NYSE American Rule 971 1NY(c)(5)(B)(i)(b) (order allocation for single stop price).

contracts which remained after Public Customer allocation of 600 contracts, for a remainder of 160 contracts)

Proposed Rule: Public Customer allocated 600 @1.20 and contra-side allocated 400 @ 1.20 (in this case contra-side allocated 40% of 1000 contracts (initial size of the Initiating Order) which is 400 contracts)

Additional example to illustrate “initial size” allocation with step up utilizing size pro-rata allocation pursuant to Options 3, Section 13(ii)(E):

The NBBO and BX BBO are both 1 x 1.50 PRISM to buy 1000 is submitted with an Initiating Order to stop the PRISM Order at 1.20, and the Initiating Order step up price of 1.19

PRISM begins. During the PRISM Auction: Public Customer PAN arrives to sell 200 @ 1.19 and 40% allocation elected  
Firm 1 PAN to sell 1000 @1.20 arrives  
Firm 2 PAN to sell 1000 @1.20 arrives  
Current Rule: Public Customer allocated 200 @1.19, contra-side allocated 240 @1.19, (40% of remaining 600), Firm 1 allocated 180 @ 1.20, Firm 2 allocated 180 @1.20

Proposed Rule: Public Customer allocated 200 @1.19, contra-side allocated 200 @1.19, contra-side allocated 400 @1.20 (40% of initial 1000), Firm 1 allocated 100 @1.20, Firm 2 allocated 100 @1.20.

The Exchange proposes to amend rounding, within Options 3, Section 13(ii)(G). Today, BX PRISM rounds up or down to the nearest integer when it allocates. The Exchange is amending the rounding methodology to round up to the nearest integer. Options 3, Section 13(ii)(G) is being amended to reflect the new methodology. As a result of changing the rounding methodology, residual odd lots will no longer exist. If the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because it is rounding up, the provisions which describe allocations for remainders of less than one contract cannot occur and, therefore, this rule text is being removed because such remainders would not be possible.

The Exchange proposes to amend Options 3, Section 13(ii)(H) to remove the phrase “then-existing.” Current Options 3, Section 13(ii)(H) provides, “If there are PAN responses that cross the then-existing NBBO (provided such NBBO is not crossed), such PAN responses will be executed, if possible, at their limit price(s).” The Exchange is not amending the current operation of the System, rather the Exchange is amending its rules to more accurately state, “If there are PAN responses that cross the NBBO at the time of execution (provided such NBBO is not crossed), such PAN responses will be executed, if possible, at their limit price(s).” The

current text appeared to state that the System was utilizing the NBBO upon entry to check if the PAN responses crossed the NBBO, however, the System utilizes the NBBO at the time of execution to check if the PAN responses cross the NBBO. The Exchange believes this revised text better expresses the manner in which the current System operates. This change does not amend the current System operation.

The Exchange proposes to amend Options 3, Section 13(ii)(I), which currently provides:

If the price of the PRISM Auction is the same as that of an order on the limit order book on the same side of the market as the PRISM Order, the PRISM Order may only be executed at a price that is at least one minimum trading increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PRISM Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

The Exchange proposes to add some context to the rule to better reflect the current System operation. First, the Exchange proposes to add the word "execution" in the first sentence of Options 3, Section 13(ii)(I). The execution price of the PRISM Auction is utilized to compare to the price of an order on the limit Order Book. The Exchange utilizes the execution price today on BX. Adding the word "execution" makes clear to Participants that the initial PRISM Order stop price is not utilized to compare the same side of the market transactions. If the potential execution price of the PRISM Order would be the same or better than the price of an order on the limit Order Book on the same side of the market as the PRISM Order then, today, would be executed at a price \$0.01 better than such limit order, regardless of whether such limit was a Public or Non-Public Customer Order. While "or better" is not clearly specified, it is the case today and its inclusion is meant to capture cases where PAN responses provide price improvement for the PRISM Order at prices that are crossed with the same side interest mentioned above. The remainder of the changes are grammatical and technical in nature, to the extent the Exchange is creating two separate sentences.

The Exchange proposes to amend Options 3, Section 13(ii)(K) to add the following introductory text which describes a PRISM ISO.

A PRISM ISO Order is the transmission of two orders for crossing pursuant to this Rule without regard for better priced Protected Bids or Protected Offers (as defined in Options 5, Section 1) because the Participant

transmitting the PRISM ISO to the Exchange has, simultaneously with the routing of the PRISM ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting PRISM Auction price and has swept all interest in the Exchange's Order Book priced better than the proposed auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PRISM Order.

Phlx similarly describes a Price Improvement XL Mechanism ("PIXL") ISO in its rule text at Options 3, Section 13(b)(11).<sup>38</sup> This text does not amend the current System functionality, rather it adds context to the current PRISM rule in describing a PRISM ISO. BX also proposes to amend the title of Options 3, Section 13(ii)(K) from "ISO Orders" to "PRISM ISO Orders." The Exchange also proposes to utilize this proposed term within Options 3, Section 13(ii)(K).

The Exchange proposes to correct Options 3, Section 13(ii)(K) to clearly describe the current System operation. The Exchange proposes to amend the first sentence of current Options 3, Section 13(ii)(K) to provide:

If a PRISM Auction is initiated for an order designated as a PRISM ISO Order, all executions which are at a price inferior to the Initial NBBO (on the contra-side of the PRISM Order) shall be allocated pursuant to the Size Pro-Rata execution algorithm, as described in Options 3, Section 10(a)(1)(C)(2), or Price/Time execution algorithm, as described in Options 3, Section 10(a)(1)(C)(1), and the aforementioned priority in Options 3, Section 13(ii)(E) and (F) shall not apply, with the exception of allocating to the Initiating Participant which will be allocated in accordance with the priority as specified in Options 3, Section 13(ii)(E) and (F).

The Exchange states "on the contra-side of the PRISM Order" to distinguish the contra-side from the same side of the PRISM Order, which receives different treatment in allocation. This proposed amendment is intended to clarify the current System operation, not amend the System.

Finally, the Exchange proposes to renumber Options 3, Section 13(vi) to "(v)." This reflects the deletion of section "vi" which was described above

<sup>38</sup> Phlx Options 3, Section 13(b)(11) states, "PIXL ISO Order. A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to this Rule without regard for better priced Protected Bids/Offer (as defined in Options 5, Section 1) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange's book priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIXL Order."

in this proposal with respect to Public Customer-to-Public Customer orders. Public Customer-to-Public Customer orders submitted into PRISM would be subject to the procedures, within Options 3, Section 12(a).

Options 3, Section 23

The Exchange proposes to amend Options 3, Section 23, Data Feeds and Trade Information, to update its descriptions of the BX Depth of Market (BX Depth) and BX Top of Market (BX Top) data feeds. The Exchange proposes to amend the BX Depth data feed at Options 3, Section 23(a)(1) to more closely align with current System operation. The Exchange proposes a technical amendment to the first sentence to replace a comma with the word "and." The Exchange also proposes to relocate rule text concerning order imbalances to the end of the description. The Exchange proposes to amend the first sentence to state "BX Depth of Market (BX Depth) is a data feed that provides full order and quote depth information for individual orders and quotes on the BX Options book, and last sale information for trades executed on BX Options." The Exchange would amend and relocate the rule text that provides, "and Order Imbalance Information as set forth in BX Options Rules Options 3, Section 8" to the end of the first sentence. The Exchange proposes to add a sentence at the end of the description which states, "The feed also provides order imbalances on opening/re-opening (size of matched contracts and size of the imbalance), auction and exposure notifications." This sentence makes clear that order imbalance information is provided for both an opening and re-opening process. Today, a re-opening process initiates after a trading halt has occurred intraday. Also, the proposed rule provides the specific information that would be provided in the data feed, namely the size of matched contracts and size of the imbalance. Finally, auction<sup>39</sup> and exposure notifications<sup>40</sup> are also provided in the data feed. The Exchange believes that this additional context to imbalance messages as well as also noting that auction and exposure notifications are provided will provide market participants with more complete information about what is contained in the data feed. This information is available today and the rule text is being

<sup>39</sup> Auctions notifications refer to PANs within Options 3, Section 13.

<sup>40</sup> Exposure notifications refer to those messages that are disseminated as part of routing within Options 5, Section 4.

amended to make clear what information is currently provided.<sup>41</sup>

The Exchange also proposes to amend the description of the BX Top data feed, within Options 3, Section 23(a)(2). The Exchange proposes to amend the first sentence to provide that the BX Top “calculates and disseminates BX’s best bid and offer and last sale information for trades executed on BX Options.” The current sentence provides that the BX Top, “is a data feed that provides the BX Options Best Bid and Offer and last sale information for trades executed on BX Options.” The Exchange believes that the amended description more clearly describes the BX Top data feed. Further, the Exchange proposes to amend the second sentence to provide, “The feed also provides last trade information and for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on BX and identifies if the series is available for closing transactions only.” The current second sentence provides, “The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on BX and identifies if the series is available for closing transactions only.” The Exchange believes noting that the last trade information is provided will make clear to market participants the data that is currently available on BX Top. This information is available today and the rule text is being amended to make clear what information is currently provided.<sup>42</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>43</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>44</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.

### Options 1, Section 1

The Exchange’s proposal to amend the definition of “Public Customer” to conform to Phlx’s definition is intended

to provide greater specificity regarding what is meant by the term “Public Customer.” Specifically, the Exchange proposes to provide that a “Public Customer” could be a person or entity and is not a Professional as defined within Options 1, Section 1(a)(48).<sup>45</sup> Today, a Public Customer is not a Professional. The term “Professional” is separately defined, within BX Options 1, Section 1(a)(48). In order to properly represent orders entered on the Exchange, Participants are required to indicate whether orders are “Professional Orders.” To comply with this requirement, Participants are required to review their Public Customers’ activity on at least a quarterly basis to determine whether orders that are not for the account of a broker-dealer should be represented as Public Customer Orders or Professional Orders.<sup>46</sup> A Public Customer may be a Professional if they meet the requirements specified within BX Options 1, Section 1(a)(48). If the Professional definition is not met, the order is treated as a Public Customer order. The Exchange believes that it is consistent with the Act to state within the definition of “Public Customers” that a Professional is not a Public Customer. As noted above, there is a process for determining if a market participant qualifies as a “Professional.” This specificity will serve to protect investors and the public interest in that the terms “Public Customer” and “Professional” are separate categories of market participants, as defined. Also, this definition conforms to Phlx’s definition at Options 1, Section 1(b)(46).

The Exchange’s proposal to remove a sentence within Options 1, Section 1(a)(48) which provides, “A Participant or a Public Customers may, without limitation, be a Professional,” is consistent with the Act. This sentence is confusing and not necessary. Phlx Options 1, Section 1(b)(46) does not

<sup>45</sup> BX Options 1, Section 1(a)(48) provides that, “The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.”

<sup>46</sup> Participants conduct a quarterly review and make any appropriate changes to the way in which they are representing orders within five days after the end of each calendar quarter. While Participants only will be required to review their accounts on a quarterly basis, if during a quarter the Exchange identifies a customer for which orders are being represented as Public Customer Orders but that has averaged more than 390 orders per day during a month, the Exchange will notify the Participant and the Participant will be required to change the manner in which it is representing the customer’s orders within five days.

contain a similar sentence. BX proposes removing this sentence because it does not add useful information to understanding who may qualify as a Professional.

The Exchange’s proposal to remove sentences, within Options 3, Section 10(a)(1)(C)(1)(a), Options 3, Section 10(a)(2)(i), Options 3, Section 13, in the introductory paragraph, and Options 3, Section 13(ii)(E)(1) and (F)(1), which allocation and PRISM rules, respectively, provide that a Public Customer does not include a Professional, are consistent with the Act. Today, the definition of a Public Customer does not explicitly exclude a Professional. The language that the Exchange proposes to delete, today, indicates that Professionals would not be treated the same as a Public Customer in terms of priority and, therefore, would not receive the same allocation that is reserved for Public Customer orders. Because BX is amending the definition of a Public Customer to explicitly exclude Professionals, the language in the PRISM and allocation rules are no longer necessary to distinguish these two types of market participants.

### Bid/Ask Differentials

The Exchange’s proposal to amend BX Options 2, Section 5(d)(2) to add the words “Intra-Day” before the title “Bid/ask Differentials (Quote Spread Parameters)” and remove references to the opening, will make clear for Market Makers their intra-day requirements. The bid/ask differentials, within BX Options 2, Section 5(d)(2), will apply intra-day only. The bid/ask differentials applicable to the opening are noted within current BX Options 3, Section 8(a)(6).<sup>47</sup> It is not necessary to discuss the opening bid/ask differentials within Options 2, Section 5. The bid/ask differentials, within BX Options 2, Section 5(d)(2), are not otherwise being amended. This clarification is consistent with the Act because it is designed to avoid any confusion for Market Makers as to their intra-day requirements versus their opening requirements.

The Exchange’s proposal to amend BX Rules at Options 2, Section 4(f)(4)–(6) (Obligations of Market Makers and Lead Market Makers), which specifies quoting requirements for Lead Market Makers, to conform the rule to proposed BX Options 2, Section 5(d)(2), which applies to BX Market Makers, is consistent with the Act. The Exchange believes it is consistent with the Act to permit Lead Market Makers to quote as wide as Market Makers on BX.

<sup>47</sup> See note 5 above.

<sup>41</sup> Fees related to BX TOP are noted within BX Options 7, Section 3.

<sup>42</sup> Fees related to BX Depth are noted within BX Options 7, Section 3.

<sup>43</sup> 15 U.S.C. 78f(b)

<sup>44</sup> 15 U.S.C. 78f(b)(5).

Today, Lead Market Makers have higher quoting requirements and other obligations noted within Options 2, Section 3, than Market Makers, which accounts for their priority allocations, within Options 3, Section 10.<sup>48</sup> The Exchange is proposing to allow Lead Market Makers to obtain similar quoting relief as, today, may be provided to Market Makers. There is no limitation on the quoting relief that may be afforded to Market Makers today, the Exchange is proposing to conform the ability for the Exchange to grant quoting relief equally to Market Makers and Lead Market Makers in the same option series. Today, while a Lead Market Maker has higher quoting obligations they have less opportunity for quoting relief in a certain options series as compared to a Market Maker who is quoting in the same options series. In periods of market volatility, similar to those experienced in the first half of 2020, BX's ability to grant quote relief was limited as compared to other options markets.

Replacing Options 2, Section 4(f)(4)—(6) with the rule text, within BX Options 2, Section 5(d)(2), would continue to require Lead Market Makers to quote with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. However, instead of requiring Lead Market Makers to quote a price differential for any in-the-money option series identical to those in the underlying security market, in the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsections (f)(4) and (5), the Exchange would now permit the bid/ask differential to be as wide as the spread between the national best bid and offer in the underlying security when the market for the underlying security is wider than \$5. Further, replacing the exemptions from subsections (f)(4) and (5) and permitting BX to establish quote width differentials similar to BX Market Makers with this provision is consistent with the Act, because it would align the bid/ask differentials for BX Market Makers and BX Lead Market Makers with quoting requirements of other Nasdaq Affiliated Markets that have both Market Makers and Lead Market Makers.<sup>49</sup> Further, the additional allowance and exemptions are no longer necessary because the Exchange

<sup>48</sup> See BX Options 3, Section 10(a)(1)(C)(1)(b) and Section 10(a)(2)(ii) which describe Lead Market Maker Priority.

<sup>49</sup> See Nasdaq Phlx LLC Rules at Options 2, Section 4(c) and ISE, GEMX and MRX Rules at Options 2, Section 4(b)(4). ISE, GEMX and MRX utilize the term Primary Market Maker instead of Lead Market Maker.

proposes to add rule text, similar to BX Options 2, Section 4(f)(5) and BX Options 5, Section 5(d)(2), which permits BX to establish differences other than the stated bid/ask differentials, for one or more series or classes of options. The ability to establish differences, other than the stated bid/ask differentials, for one or more series or classes of options already exists today for BX Lead Market Maker quoting requirements, however this discretion is limited by BX Options 2, Section 4(f)(6).<sup>50</sup> The Exchange's proposal would align the procedural BX would follow with other options exchanges, which notify members in writing of any discretion that is being granted by the Exchange. BX would no longer file a report with BX operations. Today, no other Nasdaq exchange files a report when it grants exemptions, including exemptions for BX Market Makers. Decisions to grant exemptions are made based on current market conditions. Exchanges need to be able to react when market conditions change dramatically and require the Exchange to grant relief. The additional steps that are currently required on BX, are not conducive to granting relief in fast changing markets. In addition, the quoting requirements for BX Lead Market Makers and Makers is consistent with requirements on other Nasdaq Affiliated Markets that have both Market Makers and Lead Market Makers.<sup>51</sup> Other options markets do not limit their lead market makers to quote relief as BX limits quote relief today for its Lead Market Makers. Today, BX limits its Lead Market Makers to quote relief which may not be greater than half as wide as the bid/ask differential.<sup>52</sup>

#### Options 3, Section 5

The Exchange's proposal to amend Options 3, Section 5(c) to add additional rule text similar to Phlx Options 3, Section 5(c) is consistent with the Act. Today, BX re-prices certain orders to avoid locking and crossing away markets, consistent with its Trade-Through Compliance and Locked or Crossed Markets obligations.<sup>53</sup> Orders

<sup>50</sup> See BX Options 2, Section 4(f)(5).

<sup>51</sup> See Phlx at Options 2, Section 4(c) and ISE, GEMX and MRX Rules at Options 2, Section 4(b)(4). ISE, GEMX and MRX utilize the term Primary Market Maker instead of Lead Market Maker.

<sup>52</sup> See ISE and GEMX at Options 2, Section 5, Miami International Securities Exchange LLC Rule 503(e)(2), BOX Exchange LLC Rule 8040 and NYSE American LLC Rule 925NY(b)(5) and (c).

<sup>53</sup> BX Options 3, Section 5(d) provides, "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

which lock or cross an away market will automatically re-price one minimum price improvement inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price.<sup>54</sup> The re-priced order is displayed on OPRA. The order remains on BX's Order Book and is accessible at the non-displayed price. For example, a limit order may be accessed on BX by a Participant if the limit order is priced better than the NBBO. The Exchange believes that the addition of this rule text will allow BX to define an "internal BBO" within its rules when describing re-priced orders that remain on the Order Book and are available at non-displayed prices, which are resting on the Order Book.

#### Options 3, Section 7

The Exchange's proposal to amend the Cancel-Replacement Order, within Options 3, Section 7(a)(1), is consistent with the Act. The Exchange's proposal to amend its System functionality for Cancel-Replacement Orders that do not meet price or other reasonability checks, which consider the current market at the time of the Cancel-Replacement Order, is consistent with the Act, because, with this proposal, all Cancel-Replacement Orders would receive price or other reasonability checks as a result of being viewed as new orders. Price and size are the terms that will determine if the Cancel-Replacement Order retains its priority, as is the case today, other terms and conditions do not amend the priority of the Cancel-Replacement Order. The Exchange is not amending the current System functionality of a Cancel-Replacement Order with respect to the terms that will cause the order to lose priority. Today, the price of the order may not be changed when submitting a Cancel-Replacement Order, that would be a new order.

If a Cancel-Replacement Order does not pass a price or other reasonability check, the order will cancel, but it will not be replaced with a new order. The Limit Order Price Protection and Market Order Spread Protection are the only

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."

<sup>54</sup> See Options 5, Section 4 (Order Routing), which describes the repricing of orders for both routable and non-routable orders within Options 5, Section 4(a)(iii)(A), (B) and (C).

risk protections within Options 3, Section 15 (Risk Protections) that are applicable. Price or other reasonability checks consider the current market at the time the Cancel-Replace Order is entered. The Exchange proposes to begin applying price or other reasonability checks to all Cancel-Replace Orders, similar to ISE, GEMX and MRX, to provide market participants with additional risk protection checks with the re-entry of the Cancel-Replace Order. This proposed rule is similar to ISE, GEMX and MRX Rules at Options 3, Section 7 at Supplementary Material .02, except that ISE, GEMX and MRX discuss Reserve Orders, which are not available on BX.<sup>55</sup> All risk protections are noted within Options 3, Section 15. Those risk protections apply throughout the Rulebook, except where otherwise noted. The Exchange believes that it is consistent with the Act to treat such orders as new orders which will be subject to price or other reasonability checks. The Exchange believes that conducting price or other reasonability checks for all Cancel and Replace Orders will protect investors and the public interest by validating the order against the current market conditions prior to proceeding with the request to modify the order.

The Exchange's proposal to amend "Directed Order," within Options 3, Section 7(a)(2), is non-substantive and makes technical edits that do not change the meaning of the term.

The Exchange's proposal to amend "Limit Order," within Options 3, Section 7(a)(3), to add the sentence for marketable limit orders currently within ISE, GEMX and MRX Options 3, Section 7(b)(1) is consistent with the Act. The Exchange believes that this description more aptly informs participants about a marketable limit order as compared to the current rule text, which may be confusing. The new sentence does not substantively amend the manner in which a Limit Order operates.

<sup>55</sup> ISE, GEMX and MRX Options 3, Section 7 at Supplementary Material .02, provides, "Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced."

The Exchange's proposal to amend "Minimum Quantity Orders," within Options 3, Section 7(a)(4), is non-substantive and makes technical edits that do not change the meaning of the term.

The Exchange's proposal to amend "Market Orders," within Options 3, Section 7(a)(5), is consistent with the Act. The Exchange's proposal to style "Market Orders" in the singular and change "are" to "is an" and "orders" to "order" are technical and non-substantive amendments. The Exchange's proposal to add a notation at the end of the rule to provide that "Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant, once an option series has opened for trading" adds specificity regarding the opening. Market Orders submitted during the opening may be executed, routed (depending on instructions from the market participant) or cancelled if the Market Order is priced through the opening price. The Exchange would only cancel those Market Orders that remained on the Order Book once an option series opened. The pre-established period of time would commence once the intra-day trading session begins for that options series and the order would be cancelled back to the Participant, provided the Participant elected to cancel back its Market Orders. The Exchange's proposal differentiates when the opening is ongoing, and the intra-day trading session has not commenced, the manner in which the pre-established period of time would commence.

The proposal to note that "Market Orders on the Order Book would be immediately cancelled if an options series halted, provided the Participant designated the cancellation of Market Orders" specifically addresses trading halts within the rule. Once an options series halts for trading, the Exchange conducts another Opening Process. In the case where a Market Order was resting on the Order Book, and the Participant had designated the cancellation of Market Orders, in the event of a halt, the Market Orders resting on the Order Book would immediately cancel. The Exchange believes that this text provides more detail for market participants to understand the manner in which the System handles Market Orders.

The Exchange's proposal to amend "Intermarket Sweep Order" or "ISO" Orders, within Options 3, Section 7(a)(6), is consistent with the Act. The Exchange is amending the current

functionality of an ISO Order to require that ISOs have a time-in-force designation of Immediate-or-Cancel. Today, ISOs may have any time-in-force designation except WAIT, except that ISOs with a time-in-force designation of GTC are treated as having a time-in-force designation of "Day." With this proposal, the Exchange would only continue to allow a time-in-force of IOC. A TIF designation of IOC that would cause an ISO Order to cancel in whole or in part upon receipt, in the event that the ISO Order does not execute or does not entirely execute, is consistent with the Act because an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market.

The Exchange's proposal to remove the "One-Cancels-the-Other Order" is consistent with the Act because it will remove an order type that is not in demand on BX and simply the offerings provided by BX. The Exchange would file a proposed rule change with the Commission pursuant to Section 19b1 of the Act,<sup>56</sup> if it decides to offer this order type in the future. It will provide notice to Participants that this order type will no longer be available.

The Exchange's amendment to "All-or-None Order," within Options 3, Section 7(a)(7), is non-substantive and does not change the meaning of the term. The amendment makes technical changes and replaces the words "opening cross" with "opening".

The Exchange's proposal to include a "PRISM Order" and "Customer Cross Order" in the list of order types is consistent with the Act because the addition of these terms within the list of order types simply cross-references the existing order types and does not change the functionality of the order types. The Exchange's proposal defines this existing order type by cross-referencing Options 3, Section 13 and Options 3, Section 12(a), respectively, which explains these existing order types. The Exchange believes that adding these order types, within Options 7, Section 3, will bring greater clarity to the list of order types available on BX for the protection of investors and the general public.

The Exchange's proposal to amend an "Immediate-Or-Cancel" Order or "IOC," within Options 3, Section 7(b)(2), is consistent with the Act. The Exchange's proposal replaces the current description with Phlx's description at Options 3, Section 7(c)(2) as these order types are identical. The Exchange's proposal to state that an Immediate-or-

<sup>56</sup> 15 U.S.C. 78s(b)(1).

Cancel Order or “IOC” Order is a Market Order or Limit Order to be executed in whole or in part upon receipt will bring greater clarity to the rule. Further the Exchange’s proposal to add that any portion not so executed is cancelled is consistent with the current description. The Exchange is adding additional context, similar to Phlx, with respect to routing, submission through FIX or SQF and the price protections that apply when utilizing SQF. The Exchange believes that this additional clarity will provide market participants with greater information for the protection of investors and the general public. SQF is not subject to the Limit Order Price Protection or the Market Order Spread Protection in Options 3, Section 15(a)(1) and (a)(2), respectively, because SQF is a quoting protocol. The Order Price Protection and Market Order Spread Protection, while available for orders, are not available on SQF. These exceptions within this rule to make clear that this information is available to market participants within the description of IOC. Market Makers utilize IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOC Orders to offload risk, is vital for Market Makers, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing Market Makers to submit IOC Orders through their preferred protocol increases their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. Further, unlike other market participants, Market Makers provide liquidity to the market and have obligations.<sup>57</sup> The Exchange believes not offering Order Price Protection and Market Order Spread Protection for IOC Orders entered through SQF is consistent with the Act, because Market Makers have more sophisticated infrastructures than other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.<sup>58</sup>

Finally, orders entered into the PRISM Mechanism are considered to

<sup>57</sup> Market Makers have quoting obligations as specified in Options 2, Section 5(d).

<sup>58</sup> Market quotes are subject to various protections listed in Options 3, Section 15(c). These additional quoting protections permit Market Makers to manage their exposure at the Exchange. Other market participants would not be subject to these risk protections because they do not submit quotes or utilize SQF.

have a TIF of IOC; this is also true of the PIXL Mechanism on Phlx.<sup>59</sup> The Exchange believes that adding these new details to the manner in which IOC Orders are handled within the System will bring greater transparency to these order types and provide Participants with greater detail as to the manner in which the System will handle a TIF of IOC.

The Exchange’s proposal to amend the TIF of “DAY” at Options 5, Section 7(b)(3) to conform the description of a TIF of “DAY” to Phlx Options 3, Section 7(c)(1)<sup>60</sup> is consistent with the Act. The Exchange believes the current text describing BX’s Day TIF is unnecessarily verbose and proposes to remove this language. A DAY Order on Phlx functions in the same way as a DAY Order on BX. The proposal is not amending the System functionality of a DAY Order.

The Exchange’s proposal to amend the TIF of “Good Til Cancelled” or “GTC” at Options 5, Section 7(b)(4) is consistent with the Act. The Exchange proposes to conform the rule text to Phlx Options 3, Section 7(c)(4).<sup>61</sup> The Exchange is not amending the manner in which the System function with respect to GTC Orders. GTC Orders, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open, as specified by the Exchange, until market close, as is the case today. Also, today, a GTC Order may only be entered through FIX. A GTC Order on Phlx functions in the same way as a GTC Order on BX. The Exchange believes that the amended rule text will bring greater transparency to its rules for the protection of investors and the general public.

The Exchange’s proposal to no longer offer a TIF of “WAIT” is consistent with the Act because it will remove an order type that is not in demand on BX and simply the offerings provided by BX. The Exchange would file a proposed rule change with the Commission

<sup>59</sup> See Phlx Options 3, Section 7(c)(2).

<sup>60</sup> Phlx Options 3, Section 7(c)(1) provides, “Day. If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.”

<sup>61</sup> Phlx Options 3, Section 7(c)(4) provides, “A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.”

pursuant to Section 19b1 of the Act,<sup>62</sup> if it decides to offer this order type in the future. It will provide notice to Participants that this order type will no longer be available.

The Exchange’s proposal to note, within BX Options 3, Section 7(c), the various routing options which are available is consistent with the Act. These routing strategies are consistent with a recent rule change filed by BX to amend routing strategies.<sup>63</sup>

#### Options 3, Section 10

The Exchange’s proposal to amend its Order Book allocation rule, within Options 3, Section 10, to amend the manner in which rounding occurs is consistent with the Act because the Exchange is proposing to make transparent the manner in which rounding will occur once the technology migration occurs. Today, BX rounds up or down to the nearest integer. With this proposal, the Exchange would round up to the nearest integer. Also, corresponding changes are being made, within Options 3, Section 10, to update the rounding methodology. Removing unnecessary language regarding remainders is also consistent with the Act because remainders of less than one contract cannot occur with the new rounding method.

The Exchange believes that rounding up uniformly is consistent with the Act because it provides for the equitable allocation of contracts among the Exchange’s market participants. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes.

#### Options 3, Section 12 and 22

The adoption of Customer Cross Orders is consistent with the Act because this proposal would permit Participants to enter and execute paired Public Customer-to-Public Customer Orders automatically outside of a PRISM Auction, while also protecting Public Customer Orders on the book at the same price. Today, the Exchange permits an Initiating Participant to enter a PRISM Order for the account of a Public Customer paired with an order

<sup>62</sup> 15 U.S.C. 78s(b)(1).

<sup>63</sup> See SR-BX-2020-7P.

for the account of a Public Customer and such paired orders will be automatically executed without a PRISM Auction.<sup>64</sup> The Exchange's proposal would continue to permit the ability to enter Public Customer-to-Public Customer paired orders to be automatically executed, however, not require these orders to be first entered into PRISM. A Public Customer-to-Public Customer order submitted into PRISM directly would be subject to execution pursuant to Options 3, Section 13(i) and (ii). The Exchange is removing the current provisions within Options 3, Section (iv) with this proposed rule change. Similar to ISE, GEMX and MRX rules,<sup>65</sup> BX would require Customer Crossing Orders to be entered into the Order Book. The Exchange's proposal would require executions to be at or between the best bid and offer on the Exchange and not at the same price as a Public Customer Order on the Exchange's Order Book. Finally, the execution may not be through the NBBO.

While the Exchange is limiting these orders to be entered through FIX, any market participant may utilize FIX. The Exchange believes that this proposal would allow all Participants the ability to continue automatically execute paired to enter Public Customer-to-Public Customer Orders as they do today, without the need to utilize PRISM. Public Customer-to-Public Customer Cross Orders will be rejected if they cannot be executed, as is the case today. Finally, Public Customer-to-Public Customer Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3, as is the case today. Today, a Public Customer-to-Public Customer paired order could only be entered into PRISM to receive the treatment described within proposed Options 3, Section 13(vi). With this proposal, the manner in which Public Customer-to-Public Customer paired orders are being processed by the System is changing. With this proposal, Participants may enter Public Customer-to-Public Customer paired orders directly into FIX and receive the same treatment that these orders receive today when entered into PRISM. The only difference to a Participant is the manner in which the order must now be submitted directly

into FIX to initiate a Customer Cross Order.

Further, the elimination of BX Options 3, Section 13(vi) is consistent with the Act because Public Customer-to-Public Customer Cross Orders would no longer be entered as PRISM Orders. With this proposal Public Customer-to-Public Customer Cross Orders would be entered through FIX as Customer Cross Order. The prohibition expressed within current BX Options 3, Section 13(vi) provided for only one PRISM Auction to be conducted at a time in any given series. Today, to initiate the Auction, the Initiating Participant must mark the PRISM Order for Auction processing. With this proposal, Public Customer-to-Public Customer Cross Orders would not be tagged as a PRISM Auction. The Public Customer-to-Public Customer Cross Orders would be entered as a separate order type and therefore would not potentially cause more than one PRISM Auction to occur in the same series.

In conjunction with this change, BX proposes to add the Customer Cross Order to Options 3, Section 22(a) and (c) as an exception to the rules for limitations on principal transactions and solicitation orders, which require Participants to expose trading interest to the market before executing agency orders as principal or before executing agency orders against orders that were solicited from other broker-dealers. Options 3, Section 22 contains language similar to current BX Options 3, Section 13(vi)(A). The Exchange believes that its proposal continue to protect customers and the general public by affirming that it is a violation of BX Options 3, Section 22(a)(1) for a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book.<sup>66</sup> The Exchange would surveil Public Customer-to-Public Customer Cross Orders in the same fashion that it already surveils for these orders on ISE, GEMX and MRX.

Options 3, Section 13

The Exchange's proposal to amend the System functionality, within Options 3, Section 13, similar to ISE, GEMX and MRX Options 3, Section 13, to better any limit order or quote on the limit order book on the same side of the market as the PRISM Order, within Options 3, Section 13(i)(A) and (B), is

consistent with the Act because expanding its consideration to both quotes and orders will consider a greater amount of interest present on BX's Order Book when initiating a PRISM. The addition of "quotes," similar to ISE, GEMX and MRX at Options 3, Section 13, will enable the Exchange to consider additional interest in determining eligibility for PRISM. Today, BX Options 3, Section 13 only considers orders. With this System change, quotes and orders would be considered in determining the execution price of the PRISM order. This change will not impact the handling of orders and quotes and their respective priority on the limit order book. The Exchange is proposing to add "or quote," within proposed Options 3, Sections 13(i) and (A) and (B) and (ii)(A)(1).

The Exchange's proposal to state the minimum increment allowable directly within the rule and not utilize references to Options 3, Section 3 is consistent with the Act because the Exchange will note the exact increment within the rule. This amendment does not amend the current System operation, rather it more simply states what that minimum increment is today. The Exchange proposes similar changes at Options 3, Section 13(ii)(A)(1), Options 3, Section 13(ii)(A)(6), Options 3, Section 13(ii)(C) and Options 3, Section 13(ii)(I).

The Exchange's proposal to amend the System functionality, within Options 3, Section 13(ii)(A)(1), for Surrender language is consistent with the Act because an Initiating Participant will be able to submit an Initiating Order with a configurable percentage designation of "Surrender" up to 40% or such lower percentage requested by the Participant. Today, the System permits an Initiating Participant to elect to receive either the full 40% allocation entitlement or no allocation at all. The Exchange believes that the proposed feature will provide an Initiating Participant with more flexibility to choose its priority allocation percentage, similar to functionality currently offered on ISE, GEMX and MRX at Options 3, Section 13(e)(5)(iii). Any Initiating Participant may elect to use the PRISM Surrender feature.

The Exchange's proposal to amend Options 3, Section 13(ii)(A)(1) to remove the following rule text, ". . . forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per. . .", is consistent with the Act, because the proposed text defines "Surrender" as the percentage designation, which the Exchange believes more accurately defines "Surrender."

<sup>64</sup> See Options 3, Section 13(vi). The execution price for such a PRISM Order must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or trade at the same price as any resting Public Customer order.

<sup>65</sup> See ISE, GEMX and MRX Options 3, Section 12(a).

<sup>66</sup> See Options 3, Section 22(a)(1).



The Exchange's proposal to amend the second sentence of Options 3, Section 13(ii)(A)(1) to instead provide, "If zero (0%) is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price," is consistent with the Act. The proposed text makes clear that if no percentage were elected for Surrender (0%) then the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price.

The Exchange's proposal to amend Options 3, Section 13(ii)(A)(2) to add "price" to the PRISM Auction Notification or "PAN," as part of the technology migration, is consistent with the Act because adding "price" to the list of details will provide Participants with greater transparency with respect to the PRISM and could encourage more competition in PRISM and greater opportunity for potential price improvement in PRISM. This rule change is similar to the behavior of PAN responses on ISE, GEMX and MRX.<sup>67</sup>

The Exchange's proposal to amend Options 3, Section 13(ii)(A)(7) to conform the behavior of PAN responses to ISE, GEMX and MRX System behavior<sup>68</sup> is consistent with the Act. As noted above, the Exchange is amending the System to accept oversized responses. These responses will no longer cancel back, rather, PRISM will cap the response at the size of the Initiating Order for purposes of allocation and then cancel any remaining quantity not allocated in the PRISM, including any quantity in excess of the original PRISM quantity, back to the originator of the PAN response at the end of the auction timer. Responses are a source of liquidity and potential price improvement, the Exchange believes it is appropriate to accept these responses and cap them at the size of the Initiating Order.

The Exchange's proposal to amend Options 3, Section 13(ii)(A)(8) and (9) to replace the words "immediately cancelled" with "rejected" is a non-substantive technical amendment. Non-eligible and non-compliant orders that are submitted into PRISM are rejected as those orders are reviewed for compliance with Exchange Rules, these orders are not immediately cancelled, as technically there is time, however miniscule, between the submission of

the order and the rejection of the order. The Exchange believes this non-substantive change adds more clarity to the rule text.

The Exchange's proposal to amend Options 3, Section 13(ii)(E)(2)(a) to provide the Initiating Participant with a priority allocation based on the initial size of the Initiating Order after Public Customer interest has been satisfied is consistent with the Act. Allocating based on the "initial size of the Initiating Order" provides an expectation for Participants that respond to PRISM Orders, whether that allocation is price/time,<sup>69</sup> size pro-rata<sup>70</sup> or auto-match.<sup>71</sup>

With this proposed change, the Exchange believes that Participants are better able to determine their allocation when responding with a PAN if the Initiating Participant's allocation is based on the initial size of the Initiating Order after Public Customer interest is satisfied, rather than the remaining contracts after Public Customer interest is satisfied. The Exchange's proposal provides greater transparency to market participants in that when they respond to the PRISM, they are aware of the initiating size, as compared to an undetermined remaining size which is unknown as responses are not visible to all market participants. The Exchange's proposal is similar to ISE, GEMX and MRX Options 3, Section 13(d)(3).<sup>72</sup>

<sup>69</sup> At the conclusion of the Auction, for option classes governed under BX's Price/Time execution algorithm, the PRISM Order will be allocated at the best price(s), pursuant to the priority set forth in proposed Options 3, Section 13(ii)(F)(1) through (4). First, Public Customer orders would have time priority at each price level. Next, the Initiating Participant would receive an allocation after Public Customer orders.

<sup>70</sup> At the conclusion of the Auction, for option classes governed under BX's Size Pro-Rata execution algorithm, the PRISM Order will be allocated at the best price(s), pursuant to the priority set forth in Options 3, Section 13(ii)(E)(1) through (5).

<sup>71</sup> If the Initiating Participant selected the auto-match option, the Initiating Participant would be allocated a number of contracts equal to the aggregate size of all other quotes, orders, and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant would be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after Public Customer interest has been satisfied but before remaining interest receives an allocation.

<sup>72</sup> ISE, GEMX and MRX Options 3, Section 13(d)(3), provides, "In the case where the Counter-Side Order is at the same price as Professional Interest in (d)(2), the Counter-Side order will be allocated the greater of one (1) contract or forty percent (40%) of the initial size of the Agency Order before Professional Interest is executed. Upon entry of Counter-Side orders, Members can elect to automatically match the price and size of orders,

The Exchange's proposal to amend rounding, within Options 3, Section 13(ii)(G), is consistent with the Act. Today, BX PRISM rounds up or down to the nearest integer when it allocates. The Exchange is amending the rounding methodology to round up to the nearest integer. Options 3, Section 13(ii)(G) will reflect the new methodology and provide notice to Participants of this change to the methodology. The rounding methodology will be uniformly applied when allocating PRISM Orders.

The Exchange's proposal to amend Options 3, Section 13(ii)(H) to remove the phrase "then-existing" and instead note "at time of execution" to describe the NBBO is consistent with the Act. The Exchange is not amending the current operation of the System, rather the Exchange is amending its rules to more accurately state, "If there are PAN responses that cross the NBBO at the time of execution (provided such NBBO is not crossed), such PAN responses will be executed, if possible, at their limit price(s)." The current text appeared to state that the System was utilizing the NBBO upon execution to check if the PAN responses crossed the NBBO, however, the System utilizes the NBBO at the time of arrival to check if the PAN responses cross the NBBO. This amendment promotes just and equitable principles of trade, because it will ensure the execution price does not cross the Initial NBBO in accordance with linkage rules. This proposed clarification is not changing current functionality, and this functionality applies in the same manner to the responses of all Participants.

The Exchange's proposal to amend Options 3, Section 13(ii)(I) is consistent with the Act, because the Exchange seeks to make clear the current text contained in this section. The Exchange's proposal to add context to the rule to better reflect the current System operation is consistent with the Act because without the word

quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the Counter-Side order will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side order shall be allocated the greater of one contract or forty percent (40%) of the original size of the Agency Order, but only after Priority Customer Interest at such price point are executed in full. Thereafter, all Professional Interest at the price point will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Interest. An election to automatically match better prices cannot be cancelled or altered during the exposure period."

<sup>67</sup> See ISE, GEMX and MRX Options 3, Section 13(c)(2).

<sup>68</sup> See ISE, GEMX and MRX Options 3, Section 13(c)(2).

“execution” in this sentence, a comparison of the “price of the PRISM auction” does not clearly differentiate the price in question as the execution price of the PRISM Auction or the original stop price of the PRISM Order. Without this clear differentiation, current Options 3, Section 13(ii)(I) can be interpreted to describe scenarios that cannot happen. The Exchange’s proposed addition of the word “execution” in the first sentence of Options 3, Section 13(ii)(I) reflects current System handling. The execution price of the PRISM Auction is utilized to compare to the price of an order on the limit Order Book. Adding the word “execution” makes clear to Participants that the initial PRISM stop price is not utilized to compare the same side of the market transactions. Also, if the potential execution price of the PRISM Order would be the same or better than the price of an order on the limit Order Book on the same side of the market as the PRISM Order then, today, would be executed at a price \$0.01 better than such limit order, regardless of whether such limit was a Public or Non-Public Customer Order. While “or better” is not clearly specified, it is the case today and its inclusion is meant to capture cases where PAN responses provide price improvement for the PRISM Order at prices that are crossed with the same side interest mentioned above. The proposed wording is intended to provide greater clarity to Participants for System handling with respect to same side of the market executions against the Order Book and is consistent with the Act and the protection of investors and the general public. The proposed amendments reflect current System handling and would not result in changes to the System. The remaining amendments are technical in that the change and non-substantive as the change merely structures the paragraph into two sentences.

The Exchange’s proposal to amend Options 3, Section 13(ii)(K) to add introductory text which defines a PRISM ISO is consistent with the Act. Phlx similarly describes a PIXL ISO in its rule text at Options 3, Section 13(b)(11).<sup>73</sup> This text does not amend

<sup>73</sup> Phlx Options 3, Section 13(b)(11) states, “*PIXL ISO Order*. A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to this Rule without regard for better priced Protected Bids/Offer (as defined in Options 5, Section 1) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange’s book priced better than the proposed Auction starting price. Any

the current System functionality, rather it adds context to the current PRISM rule in describing a PRISM ISO.

The Exchange’s proposal to correct Options 3, Section 13(ii)(K) to add “on the contra-side of the PRISM Order” is consistent with the Act, because this rule text clearly describes the current System operation. The Exchange states “on the contra-side of the PRISM Order” to distinguish the contra-side from the same side of the order, which receives different treatment in allocation. This proposed amendment is intended to clarify the current System operation, not amend the System.

Finally, the Exchange’s proposal to renumber Options 3, Section 13(vii) to “(vi)” is a technical non-substantive amendment.

#### Options 3, Section 23

The Exchange’s proposal to amend Options 3, Section 23, Data Feeds and Trade Information, to update its descriptions of the BX Depth of Market (BX Depth) and BX Top of Market (BX Top) data feeds is consistent with the Act, because the updated descriptions will bring greater transparency to the Exchange’s rules.

The Exchange’s proposal will make clear that order imbalance information is provided for both an opening and re-opening process within BX Depth. Today, a re-opening process initiates after a trading halt has occurred intraday. Also, the Exchange’s proposal notes the specific information that would be provided in the data feed, namely the size of matched contracts and size of the imbalance. Finally the auction and exposure notifications are also provided in the data feed. The Exchange believes that this additional context to imbalance messages as well as also noting that auction and exposure notifications are provided will provide market participants with more complete information about what is contained in the data feed. This information is available today within the data feed. The proposed rule text is being amended to make clear what information is currently provided.

With respect to the BX Top data feed, within Options 3, Section 23(a)(2), the amended description more clearly describes the BX Top data feed. Further, the Exchange believes noting that the last trade information is provided will make clear to market participants the data that is currently available on BX Top. This information is available in the data feed today and the rule text is being

execution(s) resulting from such sweeps shall accrue to the PIXL Order.”

amended to make clear what information is currently provided.

#### B. Self-Regulatory Organization’s Statement on Burden on Competition

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

#### Options 1, Section 1

The Exchange’s proposal to amend the definition of “Public Customer” to conform to Phlx’s definition does not impose an undue burden on competition because it will make clear that a Public Customer could be a person or entity and clarifying that a Public Customer is not a Professional, as defined within Options 1, Section 1(a)(48),<sup>74</sup> will make clear what it meant by that term. Today, a Public Customer is not a Professional. The term “Professional” is separately defined, within BX Options 1, Section 1(a)(48). In order to properly represent orders entered on the Exchange, Participants are required to indicate whether orders are “Professional Orders.”

Further, the Exchange’s proposal to remove a sentence within Options 1, Section 1(a)(48) which provides, “A Participant or a Public Customers may, without limitation, be a Professional,” does not impose an undue burden on competition. This sentence is confusing and not necessary. Phlx Options 1, Section 1(b)(46) does not contain a similar sentence. BX proposes removing this sentence because it does not add useful information to understanding who may qualify as a Professional.

#### Bid/Ask Differentials

The Exchange’s proposal to amend BX’s Lead Market Maker quotation rules to conform to those of other BX Market Makers does not impose an undue burden on competition. This proposal conforms the requirements for all Market Makers. Today, Lead Market Makers have higher quoting requirements and other obligations noted within Options 2, Section 3, than Market Makers, which accounts for their priority allocations, within Options 3, Section 10.<sup>75</sup> The Exchange is proposing

<sup>74</sup> BX Options 1, Section 1(a)(48) provides that, “The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.”

<sup>75</sup> See BX Options 3, Section 10(a)(1)(C)(1)(b) and Section 10(a)(2)(ii) which describe Lead Market Maker Priority.

to allow Lead Market Makers to obtain similar quoting relief as, today, may be provided to Market Makers. There is no limitation on the quoting relief that may be afforded to Market Makers today, the Exchange is proposing to conform the ability for the Exchange to grant quoting relief equally to Market Makers and Lead Market Makers in the same option series. Today, while a Lead Market Maker has higher quoting obligations they have less opportunity for quoting relief in a certain options series as compared to a Market Maker who is quoting in the same options series.

Replacing Options 2, Section 4(f)(4)–(6) with the rule text, within BX Options 2, Section 5(d)(2), would continue to require Lead Market Makers to quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. However, instead of requiring Lead Market Makers to quote a price differential for any in-the-money option series identical to those in the underlying security market, in the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsections (f)(4) and (5), the Exchange would now permit the bid/ask differential to be as wide as the spread between the national best bid and offer in the underlying security when the market for the underlying security is wider than \$5.

Further, the additional allowance and exemptions are no longer necessary because the Exchange proposes to add rule text, similar to BX Options 2, Section 4(f)(5) and BX Options 5, Section 5(d)(2), which permits BX to establish differences other than the stated bid/ask differentials, for one or more series or classes of options. The ability to establish differences, other than the stated bid/ask differentials, for one or more series or classes of options already exists today for BX Lead Market Maker quoting requirements, however this discretion is limited by BX Options 2, Section 4(f)(6).<sup>76</sup> The Exchange's proposal would align the procedural BX would follow with other options exchanges, which notify members in writing of any discretion that is being granted by the Exchange. BX would no longer file a report with BX operations. Today, no other Nasdaq exchange files a report when it grants exemptions, including exemptions for BX Market Makers. Decisions to grant exemptions are made based on current market conditions. Exchanges need to be able to react when market conditions change

dramatically and require the Exchange to grant relief.

#### Options 3, Section 5

The Exchange's proposal to amend Options 3, Section 5(c) to add additional rule text similar to Phlx Options 3, Section 5(c) does not impose an undue burden on competition. Today, BX re-prices certain orders to avoid locking and crossing away markets, consistent with its Trade-Through Compliance and Locked or Crossed Markets obligations.<sup>77</sup> Orders which lock or cross an away market will automatically re-price one minimum price improvement inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price.<sup>78</sup> The re-priced order is displayed on OPRA. The order remains on BX's Order Book and is accessible at the non-displayed price.

#### Options 3, Section 7

The Exchange's proposal to amend the Cancel-Replacement Order, within Options 3, Section 7(a)(1), does not impose an undue burden on competition. Price and size are the terms that will determine if the Cancel-Replacement Order retains its priority, as is the case today, other terms and conditions do not amend the priority of the Cancel-Replacement Order. The Exchange is not amending the current System functionality of a Cancel-Replacement Order with respect to the terms that will cause the order to lose priority. Today, the price of the order may not be changed when submitting a Cancel-Replacement Order, that would be a new order.

With this proposal, all Cancel-Replacement Orders would receive price or other reasonability checks as a result of being viewed as new orders. If a Cancel-Replacement Order does not

pass a price or other reasonability check, the order will cancel, but it will not be replaced with a new order. The Limit Order Price Protection and Market Order Spread Protection are the only risk protections within Options 3, Section 15 (Risk Protections) that are applicable. Price or other reasonability checks consider the current market at the time the Cancel-Replacement Order is entered. The Exchange proposes to begin applying price or other reasonability checks to all Cancel-Replacement Orders, similar to ISE, GEMX and MRX, to provide market participants with additional risk protection checks with the re-entry of the Cancel-Replacement Order. This proposed rule is similar to ISE, GEMX and MRX Rules at Options 3, Section 7 at Supplementary Material .02, except that ISE, GEMX and MRX discuss Reserve Orders, which are not available on BX.<sup>79</sup> All risk protections are noted within Options 3, Section 15. Those risk protections apply throughout the Rulebook, except where otherwise noted.

The Exchange's proposal to amend "Market Orders," within Options 3, Section 7(a)(5) does not amend the manner in which a Market Order operates today on BX. The Exchange's proposal to add a notation at the end of the rule to provide that "Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant, once an option series has opened for trading" adds specificity regarding the opening. Market Orders submitted during the opening may be executed, routed (depending on instructions from the market participant) or cancelled if the Market Order is priced through the opening price. The Exchange would only cancel those Market Orders that remained on the Order Book once an option series opened. The pre-established period of time would commence once the intra-

<sup>77</sup> BX Options 3, Section 5(d) provides, "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."

<sup>78</sup> See Options 5, Section 4 (Order Routing), which describes the repricing of orders for both routable and non-routable orders within Options 5, Section 4(a)(iii)(A), (B) and (C).

<sup>79</sup> ISE, GEMX and MRX Options 3, Section 7 at Supplementary Material .02, provides, "Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced."

<sup>76</sup> See BX Options 2, Section 4(f)(5).

day trading session begins for that options series and the order would be cancelled back to the Participant, provided the Participant elected to cancel back its Market Orders. The Exchange's proposal differentiates when the opening is on-going, and the intra-day trading session has not commenced, the manner in which the pre-established period of time would commence.

The proposal to note that "Market Orders on the Order Book would be immediately cancelled if an options series halted, provided the Participant designated the cancellation of Market Orders" specifically addresses trading halts within the rule. Once an options series halts for trading, the Exchange conducts another Opening Process. In the case where a Market Order was resting on the Order Book, and the Participant had designated the cancellation of Market Orders, in the event of a halt, the Market Orders resting on the Order Book would immediately cancel. Market Orders would apply uniformly to all market participants.

The Exchange's proposal to amend "Intermarket Sweep Order" Order or "ISO," within Options 3, Section 7(a)(6), does not impose an undue burden on competition. The Exchange is amending the current functionality of an ISO Order to require that ISOs have a time-in-force designation of Immediate-or-Cancel. Today, ISOs with a time-in-force designation of GTC are treated as having a time-in-force designation of Day. All ISO Orders would be treated in a uniform manner.

The Exchange's proposal to remove the "One-Cancels-the-Other Order" and "WAIT" TIF do not impose an undue burden on competition. The Exchange will no longer permit this order type and TIF for any market participant with the technology migration. Further, it will remove an order type that is not in demand on BX and simply the offerings provided by BX.

The Exchange's proposal to include a "PRISM Order" and "Customer Cross Order" in the list of order types does not impose an undue burden on competition because the addition of these terms within the list of order types simply cross-references the existing order types and does not change the functionality of the order types.

The Exchange's proposal to amend an "Immediate-Or-Cancel" Order or "IOC," within Options 3, Section 7(b)(2), does not impose an undue burden on competition. The Exchange is adding additional context, similar to Phlx, with respect to routing, submission through FIX or SQF and the price protections that apply when utilizing SQF, which

will provide market participants with greater information for the protection of investors and the general public. Market Makers utilize IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOC Orders to offload risk, is vital for Market Makers, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing Market Makers to submit IOC Orders through their preferred protocol increases their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. Further, unlike other market participants, Market Makers provide liquidity to the market place and have obligations.<sup>80</sup> The Exchange believes not offering Order Price Protection and Market Order Spread Protection for IOC Orders entered through SQF does not create a burden on competition because Market Makers have more sophisticated infrastructures than other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.<sup>81</sup>

The remainder of the amendments, within Options 3, Section 7, are technical in nature or non-substantive.

#### Options 3, Section 10

The Exchange's proposal to amend its Order Book allocation rule, within Options 3, Section 10, to amend the manner in which rounding occurs does not create a burden on competition because the Exchange is proposing to make transparent the manner in which rounding will occur once the technology migration occurs. All Participants will be subject to the rounding methodology when PRISM Orders allocate.

#### Options 3, Section 12 and 22

The adoption of Customer Cross Orders does not impose an undue burden on competition. This proposal would continue to permit any Participant to enter and execute paired Public Customer-to-Public Customer Orders automatically outside of a PRISM Auction, while also protecting Public Customer Orders on the book at

<sup>80</sup> Market Makers have quoting obligations as specified in Options 2, Section 5(d).

<sup>81</sup> Market quotes are subject to various protections listed in Options 3, Section 15(c). These additional quoting protections permit Market Makers to manage their exposure at the Exchange. Other market participants would not be subject to these risk protections because they do not submit quotes or utilize SQF.

the same price. Today, the Exchange permits an Initiating Participant to enter a PRISM Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PRISM Auction.<sup>82</sup> While the Exchange is limiting these orders to be entered through FIX, any market participant may utilize FIX. The Exchange's proposal would continue to permit the ability to enter Public Customer-to-Public Customer paired orders to be automatically executed, however, not require these orders to be first entered into PRISM. A Public Customer-to-Public Customer order submitted into PRISM directly would be subject to execution pursuant to Options 3, Section 13(i) and (ii). With this proposal, all Participants may enter Public Customer-to-Public Customer paired orders into FIX and receive the same treatment that these orders receive today when entered into PRISM. The elimination of Options 3, Section 13(vi) does not impose an undue burden on competition because Public Customer-to-Public Customer Cross Orders would be entered as a separate order type and therefore would not potentially cause more than one PRISM Auction to occur in the same series.

#### Options 3, Section 13

The Exchange's proposal to amend the System functionality, within Options 3, Section 13, similar to ISE, GEMX and MRX Options 3, Section 13, to better any limit order or quote on the limit order book on the same side of the market as the PRISM Order, within Options 3, Section 13(i)(A) and (B), does not impose an undue burden on competition. The addition of "quotes," similar to ISE, GEMX and MRX at Options 3, Section 13, will enable the Exchange to consider additional interest in determining eligibility for PRISM.

The Exchange's proposal to state the minimum increment allowable directly within the rule and not utilize references to Options 3, Section 3 does not impose an undue burden on competition as these amendments merely restate the current increment.

The Exchange's proposal to amend Options 3, Section 13(ii)(A)(1), for Surrender language does not impose an undue burden on competition because, with this proposal, all Participants will be able to submit an Initiating Order

<sup>82</sup> See BX Options 3, Section 13(vi). The execution price for such a PRISM Order must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or trade at the same price as any resting Public Customer order.

with a configurable percentage designation of “Surrender” up to 40% or such lower percentage requested by the Participant. Today, the System permits a Participant to have either a Surrender of 0% or 40%. The Exchange believes that the proposed feature will provide all Participants with more flexibility, similar to functionality currently offered on ISE, GEMX and MRX at Options 3, Section 13(e)(5)(iii).

The Exchange’s proposal to amend Options 3, Section 13(ii)(A)(1) to remove the following rule text, “. . . forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per. . .”, does not impose a burden on competition because the proposed text defines “Surrender” as the percentage designation, which the Exchange believes more accurately defines “Surrender”.

The Exchange’s proposal to amend the second sentence of Options 3, Section 13(ii)(A)(1) to instead provide, “If zero (0%) is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price,” does not impose a burden on competition. The proposed text makes clear that if no percentage were elected for Surrender (0%) then the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price.

The Exchange’s proposal to amend Options 3, Section 13(ii)(A)(2) to add “price” as a detail, which is specified today for a PRISM Auction Notification or “PAN,” does not impose a burden on competition because adding “price” to a PAN will be greater transparency with respect to the PRISM and could encourage more competition in PRISM and greater opportunity for potential price improvement in PRISM.

The Exchange’s proposal to amend Options 3, Section 13(ii)(A)(7) to conform the behavior of PAN responses to ISE, GEMX and MRX System behavior<sup>83</sup> does not impose a burden on competition. As noted above, the Exchange is amending the System to accept oversized responses. These responses will no longer cancel back, rather, PRISM will cap the response at the size of the Initiating Order for purposes of allocation for all Participants.

The Exchange’s proposal amend Options 3, Section 13(ii)(A)(8) and (9) to

replace the words “immediately cancelled” with “rejected” is a non-substantive technical amendment.

The Exchange’s proposal to amend Options 3, Section 13(ii)(E)(2)(a) to provide the Initiating Participant with a priority allocation based on the initial size of the Initiating Order after Public Customer interest has been satisfied does not impose a burden on competition. With this proposed amendment, all Participants would be allocated based on the initial size of the Initiating Order after Public Customer interest has been satisfied. The Exchange’s proposal is similar to ISE, GEMX and MRX Options 3, Section 13(d)(3).<sup>84</sup>

The Exchange’s proposal to amend rounding, within Options 3, Section 13(ii)(G), does not impose a burden on competition. The rounding methodology will be uniformly applied when allocating PRISM Orders.

The Exchange’s proposal to amend Options 3, Section 13(ii)(H) to remove the phrase “then-existing” and instead note “at time of execution” to describe the NBBO does not impose a burden on competition. The Exchange is not amending the current operation of the System. The Exchange will uniformly check if the PAN responses crossed the NBBO at the time of execution.

The Exchange’s proposal to amend Options 3, Section 13(ii)(I) does not impose an undue burden on competition. Without the word “execution” in this sentence, a comparison of the “price of the PRISM auction” does not clearly differentiate the price in question as the execution price of the PRISM Auction or the original stop price of the PRISM Order.

<sup>84</sup> ISE, GEMX and MRX Options 3, Section 13(d)(3), provides, “In the case where the Counter-Side Order is at the same price as Professional Interest in (d)(2), the Counter-Side order will be allocated the greater of one (1) contract or forty percent (40%) of the initial size of the Agency Order before Professional Interest is executed. Upon entry of Counter-Side orders, Members can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the Counter-Side order will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side order shall be allocated the greater of one contract or forty percent (40%) of the original size of the Agency Order, but only after Priority Customer Interest at such price point are executed in full. Thereafter, all Professional Interest at the price point will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Interest. An election to automatically match better prices cannot be cancelled or altered during the exposure period.”

Without this clear differentiation, Options 3, Section 13(ii)(I) can be interpreted to describe scenarios that cannot happen. The Exchange’s proposed addition of the word “execution” in the first sentence of Options 3, Section 13(ii)(I) reflects current System handling. The execution price of the PRISM Auction is utilized to compare to the price of an order on the limit Order Book. Adding the word “execution” makes clear to Participants that the initial PRISM stop price is not utilized to compare the same side of the market transactions. While “or better” is not clearly specified, it is the case today and its inclusion is meant to capture cases where PAN responses provide price improvement for the PRISM Order at prices that are crossed with the same side interest mentioned above. The proposed wording is intended to provide greater clarity to Participants for System handling with respect to same side of the market executions against the Order Book. The proposed amendments reflect current System handling are would not result in changes to the System. The remaining amendments are technical and non-substantive.

The Exchange’s proposal to amend Options 3, Section 13(ii)(K) to add introductory text which defines a PRISM ISO does not impose a burden on competition. Phlx similarly describes a PIXL ISO in its rule text at Options 3, Section 13(b)(11).<sup>85</sup> This text does not amend the current System functionality, rather it adds context to the current PRISM rule in describing a PRISM ISO.

The Exchange’s proposal to correct Options 3, Section 13(ii)(K) to add “on the contra-side of the PRISM Order” does not impose a burden on competition because this rule text clearly describes the current System operation. The Exchange provides that “on the contra-side of the PRISM Order” to distinguish the contra-side from the same side of the order, which receives different treatment in allocation. This proposed amendment is intended to clarify the current System operation, not amend the System.

<sup>85</sup> Phlx Options 3, Section 13(b)(11) states, “*PIXL ISO Order*. A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to this Rule without regard for better priced Protected Bids/Offer (as defined in Options 5, Section 1) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange’s book priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIXL Order.”

<sup>83</sup> See ISE, GEMX and MRX Options 3, Section 13(c)(2).

Finally, the Exchange's proposal to renumber Options 3, Section 13(vi) to "(v)" is technical and non-substantive.

Options 3, Section 23

The Exchange's proposal to amend Options 3, Section 23, Data Feeds and Trade Information, to update its descriptions of the BX Depth of Market (BX Depth) and BX Top of Market (BX Top) data feeds does not impose an undue burden on competition because the updated descriptions will bring greater transparency to the Exchange's rules.

*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>86</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>87</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.

**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:

<sup>86</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>87</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

*Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2020-017 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-2020-017. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BX-2020-017 and should be submitted on or before August 31, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>88</sup>

**J. Matthew DeLesDernier,**  
*Assistant Secretary.*

[FR Doc. 2020-17355 Filed 8-7-20; 8:45 am]

**BILLING CODE 8011-01-P**

<sup>88</sup> 17 CFR 200.30-3(a)(12).

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-89465; File No. SR-LCH SA-2020-003]

**Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to LCH SA's Governance Arrangements**

August 4, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4,<sup>2</sup> notice is hereby given that on July 23, 2020, Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change ("Proposed Rule Change"), as described in Items I, II and III below, which Items have been prepared by the clearing agency. On July 29, 2020, LCH SA filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 1 (the "proposed rule change"), from interested persons.

**I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change**

LCH SA, a registered clearing agency and self-regulatory organization, is a majority-owned subsidiary of LCH Group Holdings Limited ("LCH Group").<sup>4</sup> LCH Group is indirectly majority-owned by London Stock Exchange Group PLC ("LSEG"). LCH SA is proposing to amend its governance documents ("Governance Documents") including: (i) The Terms of Reference ("ToR") of the Board of Directors ("Board"); and (ii) the TOR of the current committees of the Board. The Proposed Rule Change will also establish ToR of a Nominating Committee for LCH SA.

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

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

<sup>3</sup> LCH SA filed Amendment No. 1 to correct the Exhibit 5 to the original filing to reflect a change in Article 13 of the Terms of Reference of the Board of Directors of LCH SA, which is described below, and to correct an erroneous citation in Item II.A.2 below.

<sup>4</sup> LCH Group owns 88.9 percent of LCH SA; Euronext N.V. owns 11.1 percent of LCH SA. LCH Group is also the parent of LCH Limited, a central counterparty ("CCP") authorized to offer services and activities in the European Union in accordance with the European Markets Infrastructure Regulation ("EMIR") and registered with the Commodity Futures Trading Commission ("CFTC") as a derivatives clearing organization ("DCO").