

Required fields are shown with yellow backgrounds and asterisks.

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

File No. \* SR 2021 - \* 054

Amendment No. (req. for Amendments \*)

Filing by NASDAQ BX, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

Section 806(e)(1) \*

Section 806(e)(2) \*

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

Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

### Description

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

Adopt An Add Liquidity Order and Post-Only Quote Configuration functionality

### Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Angela Last Name \* Dunn

Title \* Principal Associate General Counsel

E-mail \* angela.dunn@nasdaq.com

Telephone \* (215) 496-5692 Fax

### Signature

Pursuant to the requirements of the Securities Exchange of 1934, NASDAQ BX, Inc. has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 12/22/2021


(Title \*)

By John Zecca

EVP and Chief Legal Officer

(Name \*)

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

 Date: 2021.12.22 15:39:55 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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SR-BX-2021-054 19b-4.doc

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

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

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SR-BX-2021-054 Exhibit 1.doc

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

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

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

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

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

Exhibit Sent As Paper Document

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

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

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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SR-BX-2021-054 Exhibit 5.doc

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) Nasdaq BX, Inc. (“BX” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Options 3, Section 1 (Days and Hours of Business), Section 7 (Types of Orders and Quote Protocols), Section 13 (Price Improvement Auction (“PRISM”)) and Section 15 (Risk Protections).

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the “Board”) on November 5, 2020. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

Sun Kim  
Associate General Counsel  
Nasdaq, Inc.  
646-420-7816

Angela Dunn  
Principal Associate General Counsel  
Nasdaq, Inc.

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

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

215-496-5692

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

a. Purpose

The Exchange proposes to amend the following rules: Options 3, Section 1 (Days and Hours of Business), Section 7 (Types of Orders and Quote Protocols), Section 13 (Price Improvement Auction (“PRISM”)) and Section 15 (Risk Protections). Each change will be described below.

Options 3, Section 1

The Exchange proposes to amend Options 3, Section 1 concerning the Days and Hours of Business. The Exchange proposes to amend the title from “Days and Hours of Business” to “Hours of Business.” BX recently filed to establish General 3, Section 1030, which governs the days the Exchange will be open for business.<sup>3</sup> At this time the Exchange proposes to amend Options 3, Section 1(c) which provides, “BX Options shall not be open for business on any holiday observed by BX.” The Exchange proposes to instead provide, “BX Options shall not be open for business as provided within General 3, Section 1030.” This proposed text will make clear that while General 3, Section 1030 governs the days the Exchange will be open for business, the remainder of the rule addresses the hours of operation of the System and specific products. Finally, the

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<sup>3</sup> See Securities Exchange Act Release No. 93675 (November 29, 2021), 86 FR 68714 (December 3, 2021) (SR-NASDAQ-2021-69) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Include Juneteenth National Independence Day as a Holiday). BX’s General 3 rules incorporate by reference The Nasdaq Stock Market LLC’s General 3 Rules. Rule 1030 of General 3 memorialized all current Exchange holidays and added a provision to permit the Exchange the authority to halt or suspend trading or close Exchange facilities for certain unanticipated closures.

Exchange proposes to update citations to the Options 4 rules related to Exchange-Traded Fund Shares and Index-Linked Securities.

Options 3, Section 7

The Exchange proposes to amend Options 3, Section 7 to add a new order type entitled “Add Liquidity Order” within Options 3, Section 7(a)(12). Today, Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”) have a similar order type within Options 3, Section 7(n). ISE adopted the Add Liquidity Order to provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed.<sup>4</sup> ISE’s 2012 rule change explained that

[s]ome investors and market participants wish only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order. To accommodate this strategy, the Exchange proposed to adopt a new order type called an add liquidity order (“ALO”). ALOs are limit orders that will only be executed as a “maker” on the ISE. Members can choose whether an ALO that is executable on the ISE upon entry (or that locks or crosses an away market upon entry) will be cancelled or re-priced to one minimum price variation above the national best bid or below the national best offer. An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price.<sup>5</sup>

ISE subsequently amended this order type in 2012 such that, if at the time of entry, an ALO would lock or cross one or more non-displayed orders on the Exchange, the ALO will be cancelled or re-priced to the minimum price variation<sup>6</sup> (“MPV”) above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for

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<sup>4</sup> See Securities Exchange Act Release No. 66617 (March 19, 2012), 77 FR 17102 (March 23, 2012) (SR-ISE-2012-20) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a New Order Type).

<sup>5</sup> Id at 17103.

<sup>6</sup> See Options 3, Section 3 (Minimum Increments).

buy orders).<sup>7</sup> ISE noted in that filing that it believed that adding this functionality was imperative to ensure that ALOs are only executed when providing liquidity. Without the ability to re-price an ALO that locks or crosses a non-displayed order, under certain circumstances, an incoming ALO could execute against a non-displayed order resting on the ISE limit order book, which would be in direct contravention with the purpose of an ALO--to provide liquidity, not take liquidity.<sup>8</sup>

At this time, the Exchange proposes to adopt an Add Liquidity Order similar to ISE, GEMX and MRX Options 3, Section 7(n). The proposed Add Liquidity Order would be a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Participants would be able to specify whether an Add Liquidity Order shall be cancelled or re-priced to the MPV above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the

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<sup>7</sup> See Securities Exchange Act Release No. 67353 (July 5, 2012), 77 FR 40935 (July 11, 2012) (SR-ISE-2012-61) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by International Securities Exchange To Amend ISE Rule 715 To Reflect a Modification in the Functionality of the Add Liquidity Order).

<sup>8</sup> Id at 40935.

aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO,<sup>9</sup> the order will be handled pursuant to Options 3, Section 5(d).<sup>10</sup> This repricing of Add Liquidity Orders is the way other order types are currently re-priced on ISE, GEMX and MRX. The Exchange notes that the same sentence does not appear in the ISE, GEMX and MRX Add Liquidity Order description.<sup>11</sup>

Finally, BX proposes to add rule text that is not currently in the ISE, GEMX and MRX rule. Add Liquidity Orders may only be submitted when an options series is open for trading.<sup>12</sup> Therefore, an Add Liquidity Order would not be accepted during the Opening Process when the order book is not available.

The Exchange believes that, similar to ISE, GEMX and MRX, the adoption of an Add Liquidity Order will give market participants greater control over the circumstances

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<sup>9</sup> The term “NBBO” means the national best bid or offer as calculated by BX Options based on market information received by BX Options from OPRA. See Options 3, Section 1(a)(33).

<sup>10</sup> 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>11</sup> See ISE, GEMX and MRX Options 3, Section 5(d). The Exchange will amend the ISE, GEMX and MRX rules in separate rule changes.

<sup>12</sup> ISE, GEMX and MRX will propose a change to Options 3, Section 7(n) to add similar rule text.

in which their orders are executed in addition to the order types which are currently offered today on BX. Below are some examples of the Add Liquidity Order.

#### **Add Liquidity Only Order Re-price example**

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00
  - Reprices on book to \$0.95
  - Displays on \$0.95 bid, which is National Best displayed bid with 5 quantity
- Order to sell 10 arrives at \$0.90
  - 5 execute with Firm A @ \$0.95
  - 5 execute with Market A @ \$0.90
  - NBBO updates back to \$0.90 x \$1.00

#### **Add Liquidity Only Reject example**

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00
  - Order is rejected back to sender because the sender configured the order for reject instead of re-price

The Exchange also proposes to amend Options 3, Section 7(a)(11) to remove the title “Block Order” at the beginning of the sentence to conform the style of the description to the remaining order types within Options 3, Section 7.

#### Options 3, Section 13

The Exchange proposes to amend the Exchange’s PRISM rule in Options 3, Section 13 to delete an obsolete auction eligibility requirement and clarify existing rule text.

Today, Options 3, Section 13(i) describes the various eligibility criteria under which a PRISM auction may be initiated, including requirements for when PRISM orders



may be submitted. In particular, Section 13(i)(F) provides that PRISM orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate a PRISM auction and will be immediately cancelled. This restriction was introduced when PRISM was first adopted on the Exchange,<sup>13</sup> and was based on certain technical restraints from BX's original technical design which required no ongoing auctions to begin preparing for the end of trading day transition to closing state. However, with the Exchange's recent technology migration,<sup>14</sup> this system restriction was removed in order to be more consistent with the price improvement mechanisms on the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX.<sup>15</sup> The corresponding rule text in Options 3, Section 13(i)(F) should have likewise been deleted with the legacy functionality. Accordingly, the Exchange now proposes to delete the obsolete rule text in Section 13(i)(F) in its entirety, and renumber Section 13(i)(G) as (F).

Additionally, the Exchange proposes to amend rule text regarding the PRISM Auction process. Currently, Options 3, Section 13(ii) describes the manner in which a

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<sup>13</sup> See Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, To Adopt a New Price Improvement Auction, BX PRISM).

<sup>14</sup> See Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (SR-BX-2020-017) (August 10, 2020) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various BX Rules in Connection With a Technology Migration).

<sup>15</sup> None of these markets have similar system restrictions preventing the submission of orders in their respective price improvement mechanisms during the last two seconds of the trading day. See Nasdaq ISE, GEMX, and MRX Options 3, Section 13.

PRISM auction may be conducted. Specifically, with respect to an unrelated market or marketable limit order, Options 3, Section 13(a)(ii)(D) provides,

An unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

The term “marketable limit order” is too narrow a term as both orders and quotes on the opposite side of the market from the PRISM Order received during the PRISM auction would not cause the PRISM auction to end early and will execute against interest outside of the PRISM auction. Therefore, the Exchange proposes to replace the term “marketable limit order” with the broader term “marketable interest” to accurately describe the interest a PRISM auction would interact with in the order book on the opposite side of the market from the PRISM Order. The Exchange believes that this amendment will bring greater clarity to the PRISM rule. The proposed new rule text would provide,

Unrelated market or marketable interest (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated interest at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

The Exchange notes that Nasdaq PHLX LLC’s Price Improvement XL (“PIXL”) auction does not early terminate from contra-side unrelated marketable interest.<sup>16</sup>

#### Options 3, Section 15

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<sup>16</sup> See Phlx Options 3, Section 13(b)(4). The Exchange will separately amend Phlx’s rule to make a similar change to the rule text.

The Exchange proposes to amend Options 3, Section 15, Risk Protections, to adopt an optional quoting protection for BX Market Makers. This optional risk protection would allow BX Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt a new risk protection within Options 3, Section 15(c)(3). With this risk protection, NOM Market Makers may elect to configure their SQF<sup>17</sup> protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). This Post-Only Quote Configuration would re-price or cancel a BX Market Maker's quote that would otherwise lock or cross any resting order<sup>18</sup> or quote on the BX order book upon entry. The Exchange notes that this functionality does not apply during an Opening Process<sup>19</sup> because the order book is established once options series are open for trading.

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<sup>17</sup> "Specialized Quote Feed" or "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. See Options 3, Section 7(e)(1)(B).

<sup>18</sup> This would include any re-priced orders as described in Options 3, Section 5(d), any re-priced quotes as described in Options 3, Section 4(b)(6), and the proposed Add Liquidity Orders within proposed Options 3, Section 7(a)(12). As noted herein, Add Liquidity Orders may re-price.

<sup>19</sup> The Exchange's Opening Process is described at Options 3, Section 8.

Participants may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced to one MPV below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one MPV below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).<sup>20</sup> When configured for cancel, Participants will have their quotes returned whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price.

This optional risk protection would enable BX Market Makers to better manage their risk when quoting on BX. Today, BOX Exchange LLC (“BOX”),<sup>21</sup> NYSE Arca,

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<sup>20</sup> Options 3, Section 4(b)(6) provides, “A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.”

<sup>21</sup> BOX Rules provide, “Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the Opening Match pursuant to Rule 7070, a Market Maker’s quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected.” See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016) (SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

Inc. (“NYSE Arca”),<sup>22</sup> and MIAX Emerald, LLC (“MIAX Emerald”)<sup>23</sup> have similar functionality. BOX does not permit Market Maker’s quotes to take liquidity and will reject the quote. Other options markets, unlike BOX, continue to permit their market makers to add or remove liquidity from the order book.<sup>24</sup> NYSE Arca and MIAX Emerald will re-price quotes one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX’s proposal. Also, the Exchange’s proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration.

Finally, the Nasdaq Options Market LLC (“NOM”) recently codified<sup>25</sup> a similar risk protection, however, unlike BX, NOM reprices \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below the current low offer (for bids) or above the current best bid (for offers). The Exchange notes that, unlike BX, NOM does not offer auction functionality. Because an auction mechanism may interact adversely with Add Liquidity Only Orders or quotes with a Post-Only Quote Configuration that are re-priced in \$.01 increments and displayed at

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<sup>22</sup> NYSE Arca permits a market maker to optionally designate a quote as “Add Liquidity Only.” See NYSE Arca Rule 6.37A-O(a)(3)(B).

<sup>23</sup> See MIAX Emerald Rule 517(a)(1)(i).

<sup>24</sup> Miami International Securities Exchange LLC (“MIAX”) permits its market makers to add and remove liquidity from the order book. See MIAX’s Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC (“ISE”) also permits market makers to add and remove liquidity from the order book. See ISE’s Pricing Schedule at Options 7.

<sup>25</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

MPV increments, the Exchange proposes to re-price at one MPV.<sup>26</sup> BX has the PRISM auction.<sup>27</sup> The Exchange believes that it is consistent with the protection of investors and the general public to utilize one MPV to re-price an Add Liquidity Only Order or quote with a Post-Only Quote Configuration to avoid a PRISM auction rejecting against a non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration. The Exchange notes that a similar result could not be obtained on NOM as there are no auctions. The Add Liquidity Order on ISE, GEMX and MRX<sup>28</sup> also re-prices in one MPV as those markets have a price improvement auction.<sup>29</sup>

Further, with the adoption of Add Liquidity Orders as proposed herein within Options 3, Section 7, all BX Participants may utilize the Add Liquidity Order. The Post-Only Quote Configuration is available to Market Makers only as a risk protection.

Below are some examples of the Post-Only Quote Configuration functionality.

#### **Post-Only Quote Configuration Reprice example**

- Penny Interval Program MPV in open trading state
- Market Makers A and C do not have Post-Only Quote Configuration risk protection configured
- Market Maker B is configured for Post-Only Quote Configuration re-price
- Market Maker A quote \$0.98 (10) x \$1.00 (10)
- ABBO \$0.96 x \$1.03
- Market Maker B quote \$1.00 (10) x \$1.01 (10) arrives
  - Bid side of quote re-prices onto order book @ 0.99 and updates displayed NBBO to 20 quantity
  - Offer side rests at 1.01 without issue

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<sup>26</sup> For example, the inbound auction would reject against the non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration with an auction mechanism.

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

<sup>28</sup> See Options 3, Section 7(n).

<sup>29</sup> Id.

- Market Maker C quote \$0.97 (20) x 0.98 (20) arrives  
Trades 10 with Market Maker A and 10 with Market Maker B

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured for such, removes liquidity by interacting with re-priced interest on BX's order book.

**Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example – Non-Penny Interval Program (Options 3, Section 7(a)(9))**

- Non-Penny Interval Program MPV in open trading state
- Market Maker A quote \$0.95 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Market Maker B (configured at the badge level for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives 1.00 (5) x \$1.05 (5)
  - Bid side quote re-prices on order book to \$0.95
  - Displays on order book @ \$0.95 (bid), which now shows (15 quantity)
  - Offer side quote books and displays at \$1.05
- Order to sell 10 contracts arrives @ \$0.95
  - 5 contracts execute with Market Maker B @ \$0.95
  - 5 contracts execute with Market A @ \$0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote Configuration with re-price.

Implementation

The Exchange will issue an Options Trader Alert to Participants with the date of implementation for the Add Liquidity Order and the Post-Only Quote Configuration functionality.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>30</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>31</sup> in particular,

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<sup>30</sup> 15 U.S.C. 78f(b).

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 3, Section 1

The Exchange's proposal to amend Options 3, Section 1 concerning the Days and Hours of Business is consistent with the Act. The proposal to amend the title from "Days and Hours of Business" to "Hours of Business" will bring greater clarity to the rule. BX recently filed to establish General 3, Section 1030, which governs the days the Exchange will be open for business.<sup>32</sup> Amending Options 3, Section 1(c) to reference General 3, Section 1030 will provide Participants with a guidepost as to where to locate the rule that applies to the days the Exchange is open for business. The proposed updated citations to the Options 4 rules will provide correct references for Participants and thereby bring greater clarity to the rules.

#### Options 3, Section 7

The Exchange's proposal to amend Options 3, Section 7 to add a new order type entitled "Add Liquidity Order" within Options 3, Section 7(a)(12) is consistent with the Act. Today, ISE, GEMX and MRX have a similar order type within Options 3, Section 7(n). The Add Liquidity Order will provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order, the

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<sup>31</sup> 15 U.S.C. 78f(b)(5).

<sup>32</sup> See note 3 above.



proposed order type will accommodate this strategy. Add Liquidity Orders will only be executed as a “maker” if elected.

Participants may choose to cancel or re-price Add Liquidity Orders if, at the time of entry, the order is executable on BX or the order is not executable on BX but would lock or cross the national best bid or offer. Allowing Add Liquidity Order to re-price ensures that Add Liquidity Orders are only executed when providing liquidity and avoid executing against a non-displayed order or quote resting on BX’s order book, which would be in direct contravention with the purpose of the order type --to provide liquidity, not take liquidity. The Add Liquidity Order type is one of the order types that Participants may elect to utilize on BX to accomplish their trading strategies. The Exchange believes that adoption of the Add Liquidity Order will protect investors and the general public by making clear the manner in which the order would re-price on BX’s order book if re-price is elected, that is to the MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). As is the case today, if an order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d).

Add Liquidity Orders may only be submitted when an options series is open for trading.<sup>33</sup> Therefore, an Add Liquidity Order would not be accepted during the Opening Process as the order book is not available. The Exchange believes that similar to ISE, GEMX and MRX, the adoption of an Add Liquidity Order will give market participants

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<sup>33</sup> ISE, GEMX and MRX will propose a change to Options 3, Section 7(n) to add similar rule text.

greater control over the circumstances in which their orders are executed in addition to the order types which are currently offered today on BX.

The Exchange's proposal to amend Options 3, Section 7(a)(11) to remove the title "Block Order" at the beginning of the sentence will conform the style of the description to the remaining order types within Options 3, Section 7.

#### Options 3, Section 13

With respect to amendments to Options 3, Section 13, first, the proposed rule change deletes a PRISM auction eligibility requirement that restricts PRISM orders from being submitted during the final two seconds of the trading day. As discussed above, this system restriction is legacy functionality that was removed as part of the Exchange's technology migration in 2020. The Exchange is therefore proposing to remove the corresponding rule text in Options 3, Section 13(i)(F) as obsolete. The Exchange believes that the proposed changes will align the PRISM rule with the current operation of the Exchange's system and will reduce potential confusion about when PRISM orders may be submitted. As noted above, the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX, do not have similar system restrictions for their respective price improvement mechanisms.<sup>34</sup> Furthermore, the Exchange believes that removing this system restriction may encourage greater participation in PRISM as Participants are no longer restricted from submitting PRISM orders during the last two seconds of the trading day, thereby increasing the opportunity for options orders to receive executions and price improvement on the Exchange.

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<sup>34</sup> See note 15 above.

Second, the proposed rule change amends Options 3, Section 13(a)(ii)(D) which describes the manner in which a PRISM auction may be conducted. As noted herein, the term “marketable limit order” is too narrow a term as both orders and quotes on the opposite side of the market from the PRISM Order received during the PRISM auction would not cause the PRISM auction to end early and execute against interest outside of the PRISM auction. Amending Options 3, Section 13(a)(ii)(D) to replace the term “marketable limit order” with the broader term “marketable interest” will more accurately describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order. The Exchange believes that this amendment is consistent with the Act as it will bring greater clarity to the PRISM rule.

#### Options 3, Section 15

The Exchange’s proposal to amend Options 3, Section 15, Risk Protections, to codify new paragraph (c)(3) to permit BX Market Makers to prevent their quotes from removing liquidity from the Exchange’s order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to BX Market Makers. The proposal also promotes the policy goals of the Commission which has encouraged execution venues, exchanges, and non-exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability.

While BX Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange’s order book if their quote would otherwise lock or cross any resting order or quote on the BX order book upon entry, there are also downstream benefits to market participants. Re-priced interest on

the order book provides price improvement for market participants that interact with that non-displayed interest that is priced better than the NBBO. For example, the proposed Add Liquidity Order may re-price to the MPV above the national best bid price (for sell orders) or below the national best offer price (for buy orders) resulting in better-priced non-displayed interest that is available on the order book. Market participants are entitled to the better-priced interest when they interact with the re-priced Add Liquidity Order on the order book. Additionally, the benefits of enhanced risk protections flow downstream to counterparties both within and away from the Exchange, thereby increasing systemic protections as well.

The proposed risk protection allows BX Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, thereby protecting investors and the general public as BX Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. BX Market Makers would utilize the proposed risk protection to avoid unexpectedly taking liquidity with non-displayed, non-transparent interest<sup>35</sup> on the order book. As a result of taking liquidity, BX Market Makers would incur a taker fee that may impact the BX Market Maker's ability to provide liquidity and meet quoting obligations. BX Market Makers are required to add liquidity on NOM and, in turn, are rewarded with lower pricing<sup>36</sup> and enhanced allocations.<sup>37</sup> Specifically, the risk protection would permit BX Market Makers to add

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<sup>35</sup> See note 18 above.

<sup>36</sup> See Options 7, Section 2.

<sup>37</sup> See Options 3, Section 10.

liquidity only and avoid removing non-displayed interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to BX by allowing BX Market Makers to provide as much liquidity as possible, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system and protecting investors and the public interest. There is no impact to other market participants by introducing this Post-Only Quote Configuration as other non-Market Makers may utilize the proposed Add Liquidity Only order type that will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with non-displayed interest on BX's order book and thereby interact with order flow that is priced better than the NBBO. Also, other market participants may interact with the liquidity provided by BX Market Makers.

This optional risk protection enables BX Market Makers to better manage their risk when quoting on BX. Today, BOX,<sup>38</sup> NYSE Arca,<sup>39</sup> MIAX Emerald<sup>40</sup> and NOM<sup>41</sup>

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<sup>38</sup> BOX Rules provide, "Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the Opening Match pursuant to Rule 7070, a Market Maker's quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected." See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016) (SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

<sup>39</sup> NYSE Arca permits a market maker to optionally designate a quote as "Add Liquidity Only." See NYSE Arca Rule 6.37A-O(a)(3)(B).

<sup>40</sup> See MIAX Emerald Rule 517(a)(1)(i).

<sup>41</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and

have similar functionality. BOX does not permit Market Maker's quotes to take liquidity and will reject the quote. Other options markets, unlike BOX, continue to permit their market makers to add or remove liquidity from the order book.<sup>42</sup> NYSE Arca and MIAX Emerald will re-price quotes one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX's proposal. Also, the Exchange's proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration.

Finally, NOM recently codified<sup>43</sup> a similar risk protection, however, unlike BX which re-prices in MPVs, NOM reprices \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below the current low offer (for bids) or above the current best bid (for offers). The Exchange notes that, unlike BX, NOM does not offer auction functionality. Because an auction mechanism may interact adversely with Add Liquidity Only Orders or quotes with a Post-Only Quote Configuration that are re-priced in \$.01 increments and displayed at

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Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

<sup>42</sup> Miami International Securities Exchange LLC ("MIAX") permits its market makers to add and remove liquidity from the order book. See MIAX's Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC ("ISE") also permits market makers to add and remove liquidity from the order book. See ISE's Pricing Schedule at Options 7.

<sup>43</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

MPV increments, the Exchange proposes to re-price at one MPV.<sup>44</sup> BX has the PRISM auction.<sup>45</sup> The Exchange believes that it is consistent with the protection of investors and the general public to utilize one MPV to re-price an Add Liquidity Only Order or quote with a Post-Only Quote Configuration to avoid a PRISM auction rejecting against a non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration. The Exchange notes that a similar result could not be obtained on NOM as it has no auctions. The Add Liquidity Order on ISE, GEMX and MRX<sup>46</sup> also re-prices in one MPV as those markets have a price improvement auction.<sup>47</sup>

Further, with the adoption of Add Liquidity Orders as proposed herein within Options 3, Section 7, all BX Participants may utilize the Add Liquidity Order. The Post-Only Quote Configuration is available to Market Makers only as a risk protection.

Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis<sup>48</sup> and are subject to various obligations associated with providing liquidity on the market.<sup>49</sup> BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to

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<sup>44</sup> For example, the inbound auction would reject against the non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration with an auction mechanism.

<sup>45</sup> See Options 3, Section 13.

<sup>46</sup> See Options 3, Section 7(n).

<sup>47</sup> Id.

<sup>48</sup> See BX Options 2, Section 4(j) and Section 5(d).

<sup>49</sup> See BX Options 2, Section 4.

allow them to manage their risk more effectively.<sup>50</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of BX Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on BX and protects investors and the public interest, thereby enhancing market structure by allowing BX Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by BX Market Makers. Also, an increase in the activity of BX Market Makers in turn facilitates tighter spreads.

Finally, with the proposed addition of Add Liquidity Orders, all Participants may utilize similar functionality for orders and quotes.

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

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

##### Options 3, Section 1

The Exchange's proposal to amend Options 3, Section 1 concerning the Days and Hours of Business does not impose an undue burden on competition. The proposal to amend the title from "Days and Hours of Business" to "Hours of Business" will bring greater clarity to the rule. Amending Options 3, Section 1(c) to reference General 3, Section 1030 will provide Participants with a guidepost as to where to locate the rule that

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<sup>50</sup> Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.



applies to the days the Exchange is open for business. The proposed updated citations to the Options 4 rules will provide correct references for Participants and thereby bring greater clarity to the rules.

#### Options 3, Section 7

The Exchange's proposal to amend Options 3, Section 7 to add a new order type entitled "Add Liquidity Order" within Options 3, Section 7(a)(12) does not impose an undue burden on competition. Today, ISE, GEMX and MRX have a similar order type within Options 3, Section 7(n). The Add Liquidity Order will provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed. All Participants may utilize the Add Liquidity Order type.

The Exchange's proposal to amend Options 3, Section 7(a)(11) to remove the title "Block Order" at the beginning of the sentence will conform the style of the description to the remaining order types within Options 3, Section 7.

#### Options 3, Section 13

Removing Options 3, Section 13(i)(F) does not impose an undue burden on competition as the rule text is obsolete and the removal of the rule text will bring greater transparency to and reducing potential confusion about the Exchange's Rulebook.

Amending Options 3, Section 13(a)(ii)(D) to utilize the broader term "marketable interest" does not impose an undue burden on competition as it will more accurately describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order.

#### Options 3, Section 15

Adopting a Post-Only Quote Configuration within Options 3, Section 15(c)(3)

does not impose an undue burden on competition, rather the proposal provides BX Market Makers with the opportunity to continue to avail themselves of functionality that currently exists on BOX, NYSE Arca, MIAX Emerald and NOM.<sup>51</sup>

The proposal does not impose a burden on inter-market competition, because Participants may choose to become market makers on a number of other options exchanges, which may have similar but not identical features. The Post-Only Quote Configuration functionality will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with non-displayed interest on BX's order book and thereby interact with order flow that is priced better than the NBBO.

The proposal does not impose a burden on intra-market competition. BX proposes to adopt an Add Liquidity Order herein which will permit all Participants to receive similar treatment for their orders. Offering BX Market Makers the ability to configure their quotes as Post-Only will allow all market participants on BX to add liquidity only if desired.

The proposed risk protection allows BX Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, thereby protecting investors and the general public as BX Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. BX Market Makers are required to add liquidity on BX and, in turn, are rewarded with lower pricing<sup>52</sup> and enhanced

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<sup>51</sup> See notes 21-25 above.

<sup>52</sup> See Options 7, Section 2.

allocations.<sup>53</sup> Specifically, the risk protection would permit BX Market Makers to add liquidity only and avoid removing non-displayed interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to BX by allowing BX Market Makers to provide as much liquidity as possible. Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis<sup>54</sup> and are subject to various obligations associated with providing liquidity on the market.<sup>55</sup> BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.<sup>56</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

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

The foregoing rule change has become effective pursuant to Section

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<sup>53</sup> See Options 3, Section 10.

<sup>54</sup> See BX Options 2, Section 4(j) and Section 5(d).

<sup>55</sup> See BX Options 2, Section 4.

<sup>56</sup> Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.

19(b)(3)(A)(iii)<sup>57</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>58</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that its proposal does not significantly affect the protection of investors or the public interest, and does not impose any significant burden on competition. The proposed amendments to Options 3, Section 1 concerning the Days and Hours of Business will bring greater clarity to the rule. The proposed amendments to Options 3, Section 7 will provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order, the proposed order type will accommodate this strategy. Add Liquidity Orders will only be executed as a “maker” if elected. All Participants may utilize the Add Liquidity Order type. The proposed amendments to Options 3, Section 13 will remove a PRISM auction eligibility requirement that restricts PRISM orders from being submitted during the final two seconds of the trading day. As discussed above, this system restriction is legacy functionality that was removed as part of the Exchange’s technology migration in 2020. By removing the corresponding rule text in Options 3, Section 13(i)(F), the Exchange believes that the proposed changes will align the PRISM rule with the current operation

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<sup>57</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>58</sup> 17 CFR 240.19b-4(f)(6).

of the Exchange's system and will reduce potential confusion about when PRISM orders may be submitted. As noted above, the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX, do not have similar system restrictions for their respective price improvement mechanisms.<sup>59</sup> Additionally, amending Options 3, Section 13(a)(ii)(D) will more accurately describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order. Adopting a Post-Only Quote Configuration within Options 3, Section 15 will promote the policy goals of the Commission which has encouraged execution venues, exchanges, and non-exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability. This proposal is similar to functionality currently on BOX, NYSE Arca, MIAX Emerald and NOM.<sup>60</sup> While BX Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, there are also downstream benefits to market participants. Offering BX Market Makers the ability to configure their quotes as Post-Only will allow all market participants on BX to add liquidity only if desired. Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis<sup>61</sup> and are subject to various obligations associated with providing liquidity on the market.<sup>62</sup> BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are

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<sup>59</sup> See note 15 above.

<sup>60</sup> See notes 21-25 above.

<sup>61</sup> See BX Options 2, Section 4(j) and Section 5(d).

<sup>62</sup> See BX Options 2, Section 4.

offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.<sup>63</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations.

Furthermore, Rule 19b-4(f)(6)(iii)<sup>64</sup> requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) so that the Exchange may immediately (1) update its rules to reference General 3, Section 1030 as well as updated citations to the Options 4 rules; (2) remove a PRISM auction eligibility requirement that

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<sup>63</sup> Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.

<sup>64</sup> 17 CFR 240.19b-4(f)(6)(iii).

restricts PRISM orders from being submitted during the final two seconds of the trading day and clarify existing rule text; and (3) adopt an Add Liquidity Order and Post-Only Quote Configuration similar to other options markets.<sup>65</sup> The adoption of the Add Liquidity Order and Post-Only Quote Configuration will provide market participants with functionality currently available on other options exchanges.

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

The adoption of an Add Liquidity Order is similar to ISE, GEMX and MRX Options 3, Section 7(n). The adoption of a Post-Only Quote Configuration is similar to functionality on BOX,<sup>66</sup> NYSE Arca,<sup>67</sup> MIAX Emerald<sup>68</sup> and NOM.<sup>69</sup> BOX does not permit Market Maker's quotes to take liquidity and will reject the quote. Other options

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<sup>65</sup> The adoption of an Add Liquidity Order is similar to ISE, GEMX and MRX Options 3, Section 7(n). The adoption of a Post-Only Quote Configuration is similar to functionality on BOX, NYSE Arca, MIAX Emerald and NOM. See notes 21-25 above.

<sup>66</sup> BOX Rules provide, "Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the Opening Match pursuant to Rule 7070, a Market Maker's quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected." See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016) (SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

<sup>67</sup> NYSE Arca permits a market maker to optionally designate a quote as "Add Liquidity Only." See NYSE Arca Rule 6.37A-O(a)(3)(B).

<sup>68</sup> See MIAX Emerald Rule 517(a)(1)(i).

<sup>69</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

markets, unlike BOX, continue to permit their market makers to add or remove liquidity from the order book.<sup>70</sup> NYSE Arca and MIAX Emerald will re-price quotes one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX's proposal. Also, the Exchange's proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration. Finally, NOM's risk protection is similar, however, unlike BX, NOM reprices \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below the current low offer (for bids) or above the current best bid (for offers).

The amendment to Options 3, Section 13(i)(F) to remove the system restriction that prevents the submission of orders during the last two seconds of the trading day is consistent with the price improvement mechanisms on the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX.<sup>71</sup>

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

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

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<sup>70</sup> Miami International Securities Exchange LLC ("MIAX") permits its market makers to add and remove liquidity from the order book. See MIAX's Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC ("ISE") also permits market makers to add and remove liquidity from the order book. See ISE's Pricing Schedule at Options 7.

<sup>71</sup> None of these markets have similar system restrictions preventing the submission of orders in their respective price improvement mechanisms during the last two seconds of the trading day. See Nasdaq ISE, GEMX, and MRX Options 3, Section 13.



11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-BX-2021-054)

December \_\_, 2021

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt An Add Liquidity Order and Post-Only Quote Configuration functionality

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 December 22, 2021, Nasdaq BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Options 3, Section 1 (Days and Hours of Business), Section 7 (Types of Orders and Quote Protocols), Section 13 (Price Improvement Auction (“PRISM”)) and Section 15 (Risk Protections).

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.

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

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

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 the following rules: Options 3, Section 1 (Days and Hours of Business), Section 7 (Types of Orders and Quote Protocols), Section 13 (Price Improvement Auction (“PRISM”)) and Section 15 (Risk Protections). Each change will be described below.

Options 3, Section 1

The Exchange proposes to amend Options 3, Section 1 concerning the Days and Hours of Business. The Exchange proposes to amend the title from “Days and Hours of Business” to “Hours of Business.” BX recently filed to establish General 3, Section 1030, which governs the days the Exchange will be open for business.<sup>3</sup> At this time the Exchange proposes to amend Options 3, Section 1(c) which provides, “BX Options shall

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<sup>3</sup> See Securities Exchange Act Release No. 93675 (November 29, 2021), 86 FR 68714 (December 3, 2021) (SR-NASDAQ-2021-69) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Include Juneteenth National Independence Day as a Holiday). BX’s General 3 rules incorporate by reference The Nasdaq Stock Market LLC’s General 3 Rules. Rule 1030 of General 3 memorialized all current Exchange holidays and added a provision to permit the Exchange the authority to halt or suspend trading or close Exchange facilities for certain unanticipated closures.

not be open for business on any holiday observed by BX.” The Exchange proposes to instead provide, “BX Options shall not be open for business as provided within General 3, Section 1030.” This proposed text will make clear that while General 3, Section 1030 governs the days the Exchange will be open for business, the remainder of the rule addresses the hours of operation of the System and specific products. Finally, the Exchange proposes to update citations to the Options 4 rules related to Exchange-Traded Fund Shares and Index-Linked Securities.

Options 3, Section 7

The Exchange proposes to amend Options 3, Section 7 to add a new order type entitled “Add Liquidity Order” within Options 3, Section 7(a)(12). Today, Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”) have a similar order type within Options 3, Section 7(n). ISE adopted the Add Liquidity Order to provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed.<sup>4</sup> ISE’s 2012 rule change explained that

[s]ome investors and market participants wish only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order. To accommodate this strategy, the Exchange proposed to adopt a new order type called an add liquidity order (“ALO”). ALOs are limit orders that will only be executed as a “maker” on the ISE. Members can choose whether an ALO that is executable on the ISE upon entry (or that locks or crosses an away market upon entry) will be cancelled or re-priced to one minimum price variation above the national best bid or below the national best offer. An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price.<sup>5</sup>

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<sup>4</sup> See Securities Exchange Act Release No. 66617 (March 19, 2012), 77 FR 17102 (March 23, 2012) (SR-ISE-2012-20) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a New Order Type).

<sup>5</sup> Id at 17103.

ISE subsequently amended this order type in 2012 such that, if at the time of entry, an ALO would lock or cross one or more non-displayed orders on the Exchange, the ALO will be cancelled or re-priced to the minimum price variation<sup>6</sup> (“MPV”) above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).<sup>7</sup> ISE noted in that filing that it believed that adding this functionality was imperative to ensure that ALOs are only executed when providing liquidity. Without the ability to re-price an ALO that locks or crosses a non-displayed order, under certain circumstances, an incoming ALO could execute against a non-displayed order resting on the ISE limit order book, which would be in direct contravention with the purpose of an ALO--to provide liquidity, not take liquidity.<sup>8</sup>

At this time, the Exchange proposes to adopt an Add Liquidity Order similar to ISE, GEMX and MRX Options 3, Section 7(n). The proposed Add Liquidity Order would be a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange’s limit order book; and (ii) without routing any portion of the order to another market center. Participants would be able to specify whether an Add Liquidity Order shall be cancelled or re-priced to the MPV above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the

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<sup>6</sup> See Options 3, Section 3 (Minimum Increments).

<sup>7</sup> See Securities Exchange Act Release No. 67353 (July 5, 2012), 77 FR 40935 (July 11, 2012) (SR-ISE-2012-61) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by International Securities Exchange To Amend ISE Rule 715 To Reflect a Modification in the Functionality of the Add Liquidity Order).

<sup>8</sup> Id at 40935.

order is not executable on the Exchange but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO,<sup>9</sup> the order will be handled pursuant to Options 3, Section 5(d).<sup>10</sup> This repricing of Add Liquidity Orders is the way other order types are currently re-priced on ISE, GEMX and MRX. The Exchange notes that the same sentence does not appear in the ISE, GEMX and MRX Add Liquidity Order description.<sup>11</sup>

Finally, BX proposes to add rule text that is not currently in the ISE, GEMX and MRX rule. Add Liquidity Orders may only be submitted when an options series is open

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<sup>9</sup> The term “NBBO” means the national best bid or offer as calculated by BX Options based on market information received by BX Options from OPRA. See Options 3, Section 1(a)(33).

<sup>10</sup> 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>11</sup> See ISE, GEMX and MRX Options 3, Section 5(d). The Exchange will amend the ISE, GEMX and MRX rules in separate rule changes.

for trading.<sup>12</sup> Therefore, an Add Liquidity Order would not be accepted during the Opening Process when the order book is not available.

The Exchange believes that, similar to ISE, GEMX and MRX, the adoption of an Add Liquidity Order will give market participants greater control over the circumstances in which their orders are executed in addition to the order types which are currently offered today on BX. Below are some examples of the Add Liquidity Order.

#### **Add Liquidity Only Order Re-price example**

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00
  - Reprices on book to \$0.95
  - Displays on \$0.95 bid, which is National Best displayed bid with 5 quantity
- Order to sell 10 arrives at \$0.90
  - 5 execute with Firm A @ \$0.95
  - 5 execute with Market A @ \$0.90
  - NBBO updates back to \$0.90 x \$1.00

#### **Add Liquidity Only Reject example**

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00
  - Order is rejected back to sender because the sender configured the order for reject instead of re-price

The Exchange also proposes to amend Options 3, Section 7(a)(11) to remove the title “Block Order” at the beginning of the sentence to conform the style of the description to the remaining order types within Options 3, Section 7.

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<sup>12</sup> ISE, GEMX and MRX will propose a change to Options 3, Section 7(n) to add similar rule text.

Options 3, Section 13

The Exchange proposes to amend the Exchange's PRISM rule in Options 3, Section 13 to delete an obsolete auction eligibility requirement and clarify existing rule text.

Today, Options 3, Section 13(i) describes the various eligibility criteria under which a PRISM auction may be initiated, including requirements for when PRISM orders may be submitted. In particular, Section 13(i)(F) provides that PRISM orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate a PRISM auction and will be immediately cancelled. This restriction was introduced when PRISM was first adopted on the Exchange,<sup>13</sup> and was based on certain technical restraints from BX's original technical design which required no ongoing auctions to begin preparing for the end of trading day transition to closing state. However, with the Exchange's recent technology migration,<sup>14</sup> this system restriction was removed in order to be more consistent with the price improvement mechanisms on the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX.<sup>15</sup> The

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<sup>13</sup> See Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, To Adopt a New Price Improvement Auction, BX PRISM).

<sup>14</sup> See Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (SR-BX-2020-017) (August 10, 2020) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various BX Rules in Connection With a Technology Migration).

<sup>15</sup> None of these markets have similar system restrictions preventing the submission of orders in their respective price improvement mechanisms during the last two seconds of the trading day. See Nasdaq ISE, GEMX, and MRX Options 3, Section 13.



corresponding rule text in Options 3, Section 13(i)(F) should have likewise been deleted with the legacy functionality. Accordingly, the Exchange now proposes to delete the obsolete rule text in Section 13(i)(F) in its entirety, and renumber Section 13(i)(G) as (F).

Additionally, the Exchange proposes to amend rule text regarding the PRISM Auction process. Currently, Options 3, Section 13(ii) describes the manner in which a PRISM auction may be conducted. Specifically, with respect to an unrelated market or marketable limit order, Options 3, Section 13(a)(ii)(D) provides,

An unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

The term “marketable limit order” is too narrow a term as both orders and quotes on the opposite side of the market from the PRISM Order received during the PRISM auction would not cause the PRISM auction to end early and will execute against interest outside of the PRISM auction. Therefore, the Exchange proposes to replace the term “marketable limit order” with the broader term “marketable interest” to accurately describe the interest a PRISM auction would interact with in the order book on the opposite side of the market from the PRISM Order. The Exchange believes that this amendment will bring greater clarity to the PRISM rule. The proposed new rule text would provide,

Unrelated market or marketable interest (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated interest at the time the auction ends, they will be considered for

participation in the order allocation process described in sub-paragraphs (E) and (F) below.

The Exchange notes that Nasdaq PHLX LLC's Price Improvement XL ("PIXL") auction does not early terminate from contra-side unrelated marketable interest.<sup>16</sup>

#### Options 3, Section 15

The Exchange proposes to amend Options 3, Section 15, Risk Protections, to adopt an optional quoting protection for BX Market Makers. This optional risk protection would allow BX Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt a new risk protection within Options 3, Section 15(c)(3). With this risk protection, NOM Market Makers may elect to configure their SQF<sup>17</sup> protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). This Post-Only Quote Configuration would re-price or cancel a BX Market Maker's quote that would otherwise lock or cross any resting order<sup>18</sup>

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<sup>16</sup> See Phlx Options 3, Section 13(b)(4). The Exchange will separately amend Phlx's rule to make a similar change to the rule text.

<sup>17</sup> "Specialized Quote Feed" or "SQF" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. See Options 3, Section 7(e)(1)(B).

<sup>18</sup> This would include any re-priced orders as described in Options 3, Section 5(d), any re-priced quotes as described in Options 3, Section 4(b)(6), and the proposed

or quote on the BX order book upon entry. The Exchange notes that this functionality does not apply during an Opening Process<sup>19</sup> because the order book is established once options series are open for trading.

Participants may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced to one MPV below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one MPV below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).<sup>20</sup> When configured for cancel, Participants will have their quotes returned whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price.

This optional risk protection would enable BX Market Makers to better manage their risk when quoting on BX. Today, BOX Exchange LLC (“BOX”),<sup>21</sup> NYSE Arca,

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Add Liquidity Orders within proposed Options 3, Section 7(a)(12). As noted herein, Add Liquidity Orders may re-price.

<sup>19</sup> The Exchange’s Opening Process is described at Options 3, Section 8.

<sup>20</sup> Options 3, Section 4(b)(6) provides, “A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.”

<sup>21</sup> BOX Rules provide, “Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the

Inc. (“NYSE Arca”),<sup>22</sup> and MIAX Emerald, LLC (“MIAX Emerald”)<sup>23</sup> have similar functionality. BOX does not permit Market Maker’s quotes to take liquidity and will reject the quote. Other options markets, unlike BOX, continue to permit their market makers to add or remove liquidity from the order book.<sup>24</sup> NYSE Arca and MIAX Emerald will re-price quotes one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX’s proposal. Also, the Exchange’s proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration.

Finally, the Nasdaq Options Market LLC (“NOM”) recently codified<sup>25</sup> a similar risk protection, however, unlike BX, NOM reprices \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below

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Opening Match pursuant to Rule 7070, a Market Maker’s quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected.” See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016) (SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

<sup>22</sup> NYSE Arca permits a market maker to optionally designate a quote as “Add Liquidity Only.” See NYSE Arca Rule 6.37A-O(a)(3)(B).

<sup>23</sup> See MIAX Emerald Rule 517(a)(1)(i).

<sup>24</sup> Miami International Securities Exchange LLC (“MIAX”) permits its market makers to add and remove liquidity from the order book. See MIAX’s Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC (“ISE”) also permits market makers to add and remove liquidity from the order book. See ISE’s Pricing Schedule at Options 7.

<sup>25</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

the current low offer (for bids) or above the current best bid (for offers). The Exchange notes that, unlike BX, NOM does not offer auction functionality. Because an auction mechanism may interact adversely with Add Liquidity Only Orders or quotes with a Post-Only Quote Configuration that are re-priced in \$0.01 increments and displayed at MPV increments, the Exchange proposes to re-price at one MPV.<sup>26</sup> BX has the PRISM auction.<sup>27</sup> The Exchange believes that it is consistent with the protection of investors and the general public to utilize one MPV to re-price an Add Liquidity Only Order or quote with a Post-Only Quote Configuration to avoid a PRISM auction rejecting against a non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration. The Exchange notes that a similar result could not be obtained on NOM as there are no auctions. The Add Liquidity Order on ISE, GEMX and MRX<sup>28</sup> also re-prices in one MPV as those markets have a price improvement auction.<sup>29</sup>

Further, with the adoption of Add Liquidity Orders as proposed herein within Options 3, Section 7, all BX Participants may utilize the Add Liquidity Order. The Post-Only Quote Configuration is available to Market Makers only as a risk protection.

Below are some examples of the Post-Only Quote Configuration functionality.

#### **Post-Only Quote Configuration Reprice example**

- Penny Interval Program MPV in open trading state

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<sup>26</sup> For example, the inbound auction would reject against the non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration with an auction mechanism.

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

<sup>28</sup> See Options 3, Section 7(n).

<sup>29</sup> Id.

- Market Makers A and C do not have Post-Only Quote Configuration risk protection configured
- Market Maker B is configured for Post-Only Quote Configuration re-price
- Market Maker A quote \$0.98 (10) x \$1.00 (10)
- ABBO \$0.96 x \$1.03
- Market Maker B quote \$1.00 (10) x \$1.01 (10) arrives
  - Bid side of quote re-prices onto order book @ 0.99 and updates displayed NBBO to 20 quantity
  - Offer side rests at 1.01 without issue
- Market Maker C quote \$0.97 (20) x 0.98 (20) arrives  
Trades 10 with Market Maker A and 10 with Market Maker B

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured for such, removes liquidity by interacting with re-priced interest on BX's order book.

**Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example – Non-Penny Interval Program (Options 3, Section 7(a)(9))**

- Non-Penny Interval Program MPV in open trading state
- Market Maker A quote \$0.95 (10) x \$1.00 (10)
- ABBO \$0.85 x \$1.05
- Market Maker B (configured at the badge level for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives 1.00 (5) x \$1.05 (5)
  - Bid side quote re-prices on order book to \$0.95
  - Displays on order book @ \$0.95 (bid), which now shows (15 quantity)
  - Offer side quote books and displays at \$1.05
- Order to sell 10 contracts arrives @ \$0.95
  - 5 contracts execute with Market Maker B @ \$0.95
  - 5 contracts execute with Market A @ \$0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote Configuration with re-price.

Implementation

The Exchange will issue an Options Trader Alert to Participants with the date of implementation for the Add Liquidity Order and the Post-Only Quote Configuration functionality.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>30</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>31</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 3, Section 1

The Exchange's proposal to amend Options 3, Section 1 concerning the Days and Hours of Business is consistent with the Act. The proposal to amend the title from "Days and Hours of Business" to "Hours of Business" will bring greater clarity to the rule. BX recently filed to establish General 3, Section 1030, which governs the days the Exchange will be open for business.<sup>32</sup> Amending Options 3, Section 1(c) to reference General 3, Section 1030 will provide Participants with a guidepost as to where to locate the rule that applies to the days the Exchange is open for business. The proposed updated citations to the Options 4 rules will provide correct references for Participants and thereby bring greater clarity to the rules.

### Options 3, Section 7

The Exchange's proposal to amend Options 3, Section 7 to add a new order type entitled "Add Liquidity Order" within Options 3, Section 7(a)(12) is consistent with the Act. Today, ISE, GEMX and MRX have a similar order type within Options 3, Section 7(n). The Add Liquidity Order will provide an additional order type that will give market

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<sup>30</sup> 15 U.S.C. 78f(b).

<sup>31</sup> 15 U.S.C. 78f(b)(5).

<sup>32</sup> See note 3 above.

participants greater control over the circumstances in which their orders are executed. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order, the proposed order type will accommodate this strategy. Add Liquidity Orders will only be executed as a “maker” if elected.

Participants may choose to cancel or re-price Add Liquidity Orders if, at the time of entry, the order is executable on BX or the order is not executable on BX but would lock or cross the national best bid or offer. Allowing Add Liquidity Order to re-price ensures that Add Liquidity Orders are only executed when providing liquidity and avoid executing against a non-displayed order or quote resting on BX’s order book, which would be in direct contravention with the purpose of the order type --to provide liquidity, not take liquidity. The Add Liquidity Order type is one of the order types that Participants may elect to utilize on BX to accomplish their trading strategies. The Exchange believes that adoption of the Add Liquidity Order will protect investors and the general public by making clear the manner in which the order would re-price on BX’s order book if re-price is elected, that is to the MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). As is the case today, if an order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d).



Add Liquidity Orders may only be submitted when an options series is open for trading.<sup>33</sup> Therefore, an Add Liquidity Order would not be accepted during the Opening Process as the order book is not available. The Exchange believes that similar to ISE, GEMX and MRX, the adoption of an Add Liquidity Order will give market participants greater control over the circumstances in which their orders are executed in addition to the order types which are currently offered today on BX.

The Exchange's proposal to amend Options 3, Section 7(a)(11) to remove the title "Block Order" at the beginning of the sentence will conform the style of the description to the remaining order types within Options 3, Section 7.

#### Options 3, Section 13

With respect to amendments to Options 3, Section 13, first, the proposed rule change deletes a PRISM auction eligibility requirement that restricts PRISM orders from being submitted during the final two seconds of the trading day. As discussed above, this system restriction is legacy functionality that was removed as part of the Exchange's technology migration in 2020. The Exchange is therefore proposing to remove the corresponding rule text in Options 3, Section 13(i)(F) as obsolete. The Exchange believes that the proposed changes will align the PRISM rule with the current operation of the Exchange's system and will reduce potential confusion about when PRISM orders may be submitted. As noted above, the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX, do not have similar system restrictions for their respective price

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<sup>33</sup> ISE, GEMX and MRX will propose a change to Options 3, Section 7(n) to add similar rule text.

improvement mechanisms.<sup>34</sup> Furthermore, the Exchange believes that removing this system restriction may encourage greater participation in PRISM as Participants are no longer restricted from submitting PRISM orders during the last two seconds of the trading day, thereby increasing the opportunity for options orders to receive executions and price improvement on the Exchange.

Second, the proposed rule change amends Options 3, Section 13(a)(ii)(D) which describes the manner in which a PRISM auction may be conducted. As noted herein, the term “marketable limit order” is too narrow a term as both orders and quotes on the opposite side of the market from the PRISM Order received during the PRISM auction would not cause the PRISM auction to end early and execute against interest outside of the PRISM auction. Amending Options 3, Section 13(a)(ii)(D) to replace the term “marketable limit order” with the broader term “marketable interest” will more accurately describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order. The Exchange believes that this amendment is consistent with the Act as it will bring greater clarity to the PRISM rule.

#### Options 3, Section 15

The Exchange’s proposal to amend Options 3, Section 15, Risk Protections, to codify new paragraph (c)(3) to permit BX Market Makers to prevent their quotes from removing liquidity from the Exchange’s order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to BX Market Makers. The proposal also promotes the policy goals of the Commission which has encouraged execution venues, exchanges, and non-

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<sup>34</sup> See note 15 above.

exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability.

While BX Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the BX order book upon entry, there are also downstream benefits to market participants. Re-priced interest on the order book provides price improvement for market participants that interact with that non-displayed interest that is priced better than the NBBO. For example, the proposed Add Liquidity Order may re-price to the MPV above the national best bid price (for sell orders) or below the national best offer price (for buy orders) resulting in better-priced non-displayed interest that is available on the order book. Market participants are entitled to the better-priced interest when they interact with the re-priced Add Liquidity Order on the order book. Additionally, the benefits of enhanced risk protections flow downstream to counterparties both within and away from the Exchange, thereby increasing systemic protections as well.

The proposed risk protection allows BX Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, thereby protecting investors and the general public as BX Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. BX Market Makers would utilize the proposed risk protection to avoid unexpectedly taking liquidity with non-displayed, non-transparent interest<sup>35</sup> on the order book. As a result of taking liquidity,

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<sup>35</sup> See note 18 above.

BX Market Makers would incur a taker fee that may impact the BX Market Maker's ability to provide liquidity and meet quoting obligations. BX Market Makers are required to add liquidity on NOM and, in turn, are rewarded with lower pricing<sup>36</sup> and enhanced allocations.<sup>37</sup> Specifically, the risk protection would permit BX Market Makers to add liquidity only and avoid removing non-displayed interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to BX by allowing BX Market Makers to provide as much liquidity as possible, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system and protecting investors and the public interest. There is no impact to other market participants by introducing this Post-Only Quote Configuration as other non-Market Makers may utilize the proposed Add Liquidity Only order type that will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with non-displayed interest on BX's order book and thereby interact with order flow that is priced better than the NBBO. Also, other market participants may interact with the liquidity provided by BX Market Makers.

This optional risk protection enables BX Market Makers to better manage their risk when quoting on BX. Today, BOX,<sup>38</sup> NYSE Arca,<sup>39</sup> MIAX Emerald<sup>40</sup> and NOM<sup>41</sup>

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<sup>36</sup> See Options 7, Section 2.

<sup>37</sup> See Options 3, Section 10.

<sup>38</sup> BOX Rules provide, "Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the Opening Match pursuant to Rule 7070, a Market Maker's quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected." See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016)

have similar functionality. BOX does not permit Market Maker's quotes to take liquidity and will reject the quote. Other options markets, unlike BOX, continue to permit their market makers to add or remove liquidity from the order book.<sup>42</sup> NYSE Arca and MIAX Emerald will re-price quotes one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX's proposal. Also, the Exchange's proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration.

Finally, NOM recently codified<sup>43</sup> a similar risk protection, however, unlike BX which re-prices in MPVs, NOM reprices \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below the current low offer (for bids) or above the current best bid (for offers). The Exchange notes

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(SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

<sup>39</sup> NYSE Arca permits a market maker to optionally designate a quote as "Add Liquidity Only." See NYSE Arca Rule 6.37A-O(a)(3)(B).

<sup>40</sup> See MIAX Emerald Rule 517(a)(1)(i).

<sup>41</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

<sup>42</sup> Miami International Securities Exchange LLC ("MIAX") permits its market makers to add and remove liquidity from the order book. See MIAX's Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC ("ISE") also permits market makers to add and remove liquidity from the order book. See ISE's Pricing Schedule at Options 7.

<sup>43</sup> See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

that, unlike BX, NOM does not offer auction functionality. Because an auction mechanism may interact adversely with Add Liquidity Only Orders or quotes with a Post-Only Quote Configuration that are re-priced in \$0.01 increments and displayed at MPV increments, the Exchange proposes to re-price at one MPV.<sup>44</sup> BX has the PRISM auction.<sup>45</sup> The Exchange believes that it is consistent with the protection of investors and the general public to utilize one MPV to re-price an Add Liquidity Only Order or quote with a Post-Only Quote Configuration to avoid a PRISM auction rejecting against a non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration. The Exchange notes that a similar result could not be obtained on NOM as it has no auctions. The Add Liquidity Order on ISE, GEMX and MRX<sup>46</sup> also re-prices in one MPV as those markets have a price improvement auction.<sup>47</sup>

Further, with the adoption of Add Liquidity Orders as proposed herein within Options 3, Section 7, all BX Participants may utilize the Add Liquidity Order. The Post-Only Quote Configuration is available to Market Makers only as a risk protection.

Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis<sup>48</sup> and are subject to various obligations associated with providing liquidity on

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<sup>44</sup> For example, the inbound auction would reject against the non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration with an auction mechanism.

<sup>45</sup> See Options 3, Section 13.

<sup>46</sup> See Options 3, Section 7(n).

<sup>47</sup> Id.

<sup>48</sup> See BX Options 2, Section 4(j) and Section 5(d).

the market.<sup>49</sup> BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.<sup>50</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of BX Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on BX and protects investors and the public interest, thereby enhancing market structure by allowing BX Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by BX Market Makers. Also, an increase in the activity of BX Market Makers in turn facilitates tighter spreads.

Finally, with the proposed addition of Add Liquidity Orders, all Participants may utilize similar functionality for orders and quotes.

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 3, Section 1

The Exchange's proposal to amend Options 3, Section 1 concerning the Days and Hours of Business does not impose an undue burden on competition. The proposal to

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<sup>49</sup> See BX Options 2, Section 4.

<sup>50</sup> Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.

amend the title from “Days and Hours of Business” to “Hours of Business” will bring greater clarity to the rule. Amending Options 3, Section 1(c) to reference General 3, Section 1030 will provide Participants with a guidepost as to where to locate the rule that applies to the days the Exchange is open for business. The proposed updated citations to the Options 4 rules will provide correct references for Participants and thereby bring greater clarity to the rules.

#### Options 3, Section 7

The Exchange’s proposal to amend Options 3, Section 7 to add a new order type entitled “Add Liquidity Order” within Options 3, Section 7(a)(12) does not impose an undue burden on competition. Today, ISE, GEMX and MRX have a similar order type within Options 3, Section 7(n). The Add Liquidity Order will provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed. All Participants may utilize the Add Liquidity Order type.

The Exchange’s proposal to amend Options 3, Section 7(a)(11) to remove the title “Block Order” at the beginning of the sentence will conform the style of the description to the remaining order types within Options 3, Section 7.

#### Options 3, Section 13

Removing Options 3, Section 13(i)(F) does not impose an undue burden on competition as the rule text is obsolete and the removal of the rule text will bring greater transparency to and reducing potential confusion about the Exchange’s Rulebook.

Amending Options 3, Section 13(a)(ii)(D) to utilize the broader term “marketable interest” does not impose an undue burden on competition as it will more accurately



describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order.

Options 3, Section 15

Adopting a Post-Only Quote Configuration within Options 3, Section 15(c)(3) does not impose an undue burden on competition, rather the proposal provides BX Market Makers with the opportunity to continue to avail themselves of functionality that currently exists on BOX, NYSE Arca, MIAX Emerald and NOM.<sup>51</sup>

The proposal does not impose a burden on inter-market competition, because Participants may choose to become market makers on a number of other options exchanges, which may have similar but not identical features. The Post-Only Quote Configuration functionality will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with non-displayed interest on BX's order book and thereby interact with order flow that is priced better than the NBBO.

The proposal does not impose a burden on intra-market competition. BX proposes to adopt an Add Liquidity Order herein which will permit all Participants to receive similar treatment for their orders. Offering BX Market Makers the ability to configure their quotes as Post-Only will allow all market participants on BX to add liquidity only if desired.

The proposed risk protection allows BX Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, thereby protecting

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<sup>51</sup> See notes 21-25 above.

investors and the general public as BX Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. BX Market Makers are required to add liquidity on BX and, in turn, are rewarded with lower pricing<sup>52</sup> and enhanced allocations.<sup>53</sup> Specifically, the risk protection would permit BX Market Makers to add liquidity only and avoid removing non-displayed interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to BX by allowing BX Market Makers to provide as much liquidity as possible. Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis<sup>54</sup> and are subject to various obligations associated with providing liquidity on the market.<sup>55</sup> BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.<sup>56</sup> The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations.

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.

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<sup>52</sup> See Options 7, Section 2.

<sup>53</sup> See Options 3, Section 10.

<sup>54</sup> See BX Options 2, Section 4(j) and Section 5(d).

<sup>55</sup> See BX Options 2, Section 4.

<sup>56</sup> Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.

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>57</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>58</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:

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<sup>57</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>58</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2021-054 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-2021-054. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

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

All submissions should refer to File Number SR-BX-2021-054 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>59</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>59</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**Nasdaq BX, Inc. Rules**

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**Options 3 Options Trading Rules****Section 1. [Days and ]Hours of Business**

(a) The System operates and shall be available to accept bids and offers and orders from the time prior to market open specified by the Exchange on its website to market close on each business day, unless modified by BX Options. Orders and bids and offers shall be open and available for execution as of 9:30 a.m. Eastern Time and shall close as of 4:00 p.m. Eastern Time except for option contracts on certain fund shares or broad-based indexes which will close as of 4:15 p.m. Eastern Time.

(b) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on individual stocks may be made on BX Options shall correspond to the normal business days and hours for business set forth in the rules of the primary market trading the securities underlying BX Options. Notwithstanding the foregoing, transactions may be effected in options contracts on Exchange-Traded Fund Shares, as defined in Options 4, Section 3([i]h); and in options contracts on exchange-traded notes including Index-Linked Securities, as defined in Options 4, Section 3([l]k), on BX Options until 4:15 p.m.

(c) BX Options shall not be open for business [on any holiday observed by BX]as provided within General 3, Section 1030.

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**Section 7. Types of Orders and Quote Protocols**

The Exchange may determine to make certain order types and time-in-force, respectively, available on a class or System basis.

(a) The term “Order” shall mean a single order submitted to the System by a Participant that is eligible to submit such orders. The term “Order Type” shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

\* \* \* \* \*

(11) [Block Order. ]A "Block Order" is an order entered into the Block Order Mechanism as described in Options 3, Section 11(a).

(12) An “Add Liquidity Order” is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange’s limit order book; and (ii) without routing any portion of the order to another market center. Participants may specify whether an Add Liquidity Order shall be

cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

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### **Section 13. Price Improvement Auction ("PRISM")**

A Participant may electronically submit for execution an order it represents as agent on behalf of a Public Customer, broker dealer, or any other entity ("PRISM Order") against principal interest or against any other order (except as provided in sub-paragraph (i)(F) below) it represents as agent (an "Initiating Order") provided it submits the PRISM Order for electronic execution into the PRISM Auction ("Auction") pursuant to this Rule.

(i) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PRISM. A Participant (the "Initiating Participant") may initiate an Auction provided all of the following are met:

(A) – (E) No change.

[(F) PRISM Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be immediately cancelled.]

[[G]E] An Initiating Order may not be a solicited order for the account of any BX Options Market Maker assigned in the affected series.

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(ii) Auction Process. Only one Auction may be conducted at a time in any given series. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(A)– (C) No change

(D) [An u]Unrelated market or marketable [limit order]interest (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated [order]interest at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

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## Section 15. Risk Protections

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

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(F) The Exchange will require BX Market Makers to utilize either the Percentage Threshold or the Volume Threshold. The Delta, Vega and Multi-Trigger Thresholds are optional.

(3) Post-Only Quoting Protection. BX Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity (“Post-Only Quote Configuration”). A Post-Only Quote Configuration would re-price or cancel a BX Market Maker’s quote that would otherwise lock or cross any resting order or quote on the BX order book upon entry. When configured for re-price, quotes would be re-priced to one minimum price variation below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6). When configured for cancel, Participants will have their quotes returned whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. This functionality shall not apply during an Opening Process.

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