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

File No. * SR 2023 - * 013

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"/>
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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) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
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Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

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

Amend Various Options 3 Rules and Options 5, Section 4

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 05/16/2023	(Title *) EVP and Chief Legal Officer
By John Zecca (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: 2023.05.16 12:11:00 -04'00'

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-2023-013 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-2023-013 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-2023-013 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”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Options 3, Options Trading Rules, at: Section 4 Entry and Display of Quotes; Section 5, Entry and Display of Orders; Section 7, Types of Orders and Quote Protocols; Section 8, Options Opening Process; Section 11, Auction Mechanisms; Section 13, Price Improvement Auction (“PRISM”); Section 15, Risk Protections; and Options 3, Section 18, Detection of Loss of Communication. The Exchange also proposes to amend Options 5, Section 4, Order Routing.

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”). 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:

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
(215) 496-5692

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

a. Purpose

BX proposes to amend Options 3, Options Trading Rules, at: Section 4, Entry and Display of Quotes; Section 5, Entry and Display of Orders; Section 7, Types of Orders and Quote Protocols; Section 8, Options Opening Process; Section 11, Auction Mechanisms; Section 13, Price Improvement Auction (“PRISM”); Section 15, Risk Protections; and Options 3, Section 18, Detection of Loss of Communication. The Exchange also proposes to amend Options 5, Section 4, Order Routing. Each change will be discussed below. The amendments proposed herein seek to codify the current System functionality. The proposed amendments will not result in System changes.

Option 3, Sections 4 and 5

The Exchange proposes to codify existing functionality that allows Market Makers to submit their quotes to the Exchange in block quantities as a single bulk message. In other words, a Market Maker may submit a single message to the Exchange, which may contain bids and offers in multiple series. The Exchange’s current rules do not specify bulk messaging for orders. The Exchange has historically provided Market Makers with information regarding bulk messaging in its publicly available technical specifications.³ To promote greater transparency, the Exchange is seeking to codify this

³ See https://www.nasdaq.com/docs/2023/01/12/0054-Q23_SQF_8.2b%20akg_NAM.pdf (specifying for bulk quoting of up to 200 quotes per quote block message). The specifications note in other places the

functionality in its Rulebook. Specifically, the Exchange proposes to amend BX Options 3, Section 4(b)(3) to memorialize that quotes may be submitted as a bulk message. The Exchange also proposes to add a definition of “bulk message” in new subparagraph (i) of Options 3, Section 4(b)(3), which will provide that a bulk message means a single electronic message submitted by a Market Maker to the Exchange which may contain a specified number of quotations as designated by the Exchange.⁴ The bulk message, submitted via SQF,⁵ may enter, modify, or cancel quotes. Bulk messages are handled by the System in the same manner as it handles a single quote message. MRX recently added bulk messages to MRX Options 3, Section 4(b)(3).⁶ The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(3) will not result in a System change.

manner in which a Participant can send such quote block messages.

⁴ Id. As noted above, quote bulk messages can presently contain up to 200 quotes per message. This is the maximum amount that is permitted in a bulk message. The Exchange would announce any change to these specifications in an Options Technical Update distributed to all Participants.

⁵ “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 to 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).

⁶ See Securities Exchange Act, Release No. 95982 (October 4, 2022), 87 FR 61391 (October 11, 2022) (SR-MRX-2022-18) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Rules in Connection With a Technology Migration to Enhanced Nasdaq Functionality) (“SR-MRX-2022-18”).

The Exchange also proposes to amend BX Options 3, Section 4(b)(6) to provide the following,

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) *as non-displayed*, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

Where a quote is re-priced to avoid a locked or crossed market, the best bid or offer will be non-displayed and the re-priced order will be displayed at a price that is one minimum trading increment inferior to the ABBO. A similar change is proposed for Options 3, Section 5(d). MRX recently amended Options 3, Section 4(b)(6) and Options 3, Section 5(d) to include this language.⁷ At this time, the Exchange proposes to amend BX's rule text to reflect that the actual price remains non-displayed in this scenario. The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(6) will not result in a System change.

Similarly, the Exchange proposes to add a new BX Options 3, Section 4(b)(7) to clarify that, today, BX's System will automatically execute eligible quotes using the Exchange's displayed best bid and offer ("BBO") or the Exchange's non-displayed order book ("internal BBO")⁸ if the best bid and/or offer on the Exchange has been repriced pursuant to Options 3, Section 5(d) and Options 3, Section 4(b)(6). This rule text seeks

⁷ See Securities Exchange Act, Release No. 95807 (September 16, 2022), 87 FR 57933 (September 22, 2022) (SR-MRX-2022-16) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Certain Rules in Connection With a Technology Migration to Enhanced Nasdaq Functionality) ("SR-MRX-2022-16").

⁸ The internal BBO refers to the Exchange's non-displayed book.

to codify the current System function and make clear that the internal BBO is comprised of both orders and quotes.⁹ MRX recently amended Options 3, Section 4(b)(7) to include the same language.¹⁰ At this time, the Exchange proposes to align BX's rule text in Options 3, Section 4(b)(7) to MRX's rule text in Options 3, Section 4(b)(7). The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(7) will not result in a System change.

Finally, the Exchange proposes to amend BX Options 3, Section 5(c) to include a citation to Options 3, Section 4(b)(6) as the internal BBO is comprised of both orders and quotes, similar to MRX.¹¹

The amendments proposed to Options 3, Sections 4 and 5 do not change the current System functionality.

Options 3, Section 7

The Exchange proposes to amend the title of BX Options 3, Section 7 from "Types of Orders and Quote Protocols" to "Types of Orders and Order and Quote Protocols" so that it may align BX's title to MRX Options 3, Section 7.

The Exchange proposes to amend BX Options 3, Section 7(a)(9) to add the word "Order" after "PRISM". This is a non-substantive technical amendment to align the term to its usage within Options 3, Section 13.

The Exchange proposes to amend the rule text of BX Options 3, Section 7(a)(8),

⁹ The Exchange also proposes to re-number current Options 3, Section 4(b)(7) as (8).

¹⁰ See SR-MRX-2022-16.

¹¹ Id.

related to an Opening Sweep,¹² and (b)(1), related to Opening Only¹³ or “OPG” orders, to reflect a current System function. The Exchange proposes to specify that these order types are subject to the Market Wide Risk Protection within Options 3, Section 15. The Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) automatically removes orders when certain firm-set thresholds are met. Specifically, the Market Wide Risk Protection requires all Participants to provide parameters for the order entry and execution rate protections. Today, the Market Wide Risk Protection applies to Opening Sweep Orders and OPG Orders, similar to other order types, and allows BX Participants to manage their exposure to risk in the Opening Process, described in Options 3, Section 8, as well as intra-day. The Market Wide Risk Protection is designed to reduce risk associated with System errors or market events that may cause Participants to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Specifically, the availability of Market Wide Risk Protection during the Opening Process assists Participants in managing their pre-open risk. The proposed amendments to BX Options 3, Section 7(a)(8) and (b)(1) will not result in a System change.

The Exchange proposes to amend the rule text at BX Options 3, Section 7(b)(2)(C) to add Block Orders¹⁴ and Customer Cross Orders¹⁵ to Options 3, Section

¹² An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process.

¹³ An OPG order is entered with a TIF of “OPG.” This order can only be executed in the Opening Process pursuant to Options 3, Section 8. See Options 3, Section 7(b)(1).

¹⁴ A “Block Order” is an order entered into the Block Order Mechanism as described in Options 3, Section 11(a). See Options 3, Section 7(a)(11).

7(b)(2)(C) and replace the term “Price Improvement Auction (“PRISM”) Mechanism” with “PRISM Orders.” The proposed sentence would state that “Block Orders, Customer Cross Orders, and PRISM Orders are considered to have a TIF of IOC.” In 2020, BX adopted Block Orders and Customer Cross Orders in a technology migration.¹⁶ At that time, the Exchange should have added those order types to this list. At this time, the Exchange proposes to update this list to include these order types. Further, the Exchange proposes to state that, “By their terms, these orders will be: (1) executed either on entry or after the exposure period, or (2) cancelled.” The additional language is being added because Customer Cross Orders may be executed upon entry, provided all the terms are satisfied. This proposed change aligns BX’s rule text to MRX’s rule text at Supplementary Material .02(d)(3) of Options 3, Section 7. The proposed amendments to BX Options 3, Section 7(b)(2)(C) will not result in a System change.

Finally, the Exchange proposes to amend the description of Specialized Quote Feed or “SQF” within BX Options 3, Section 7(e)(1)(B) to add rule text which states, “Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, Market Order Spread Protection, or Size Limitation Protection in Options 3, Section 15(a)(1), (a)(2), and (b)(2) respectively.” This rule text is currently noted within

¹⁵ A “Customer Cross Order” is as described in Options 3, Section 12(a). See Options 3, Section 7(a)(10).

¹⁶ See Securities Exchange Act, Release No. 89759 (September 3, 2020), 85 FR 55886 (September 10, 2020) (SR-BX-2020-023) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Rules in Connection With a Technology Migration to Enhanced Nasdaq, Inc. Functionality) (“SR-BX-2020-023”). See also Securities Exchange Act, Release No. 89476 (August 4, 2020), 85 FR 482274 (August 10, 2020) (SR-BX-2020-017) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various BX Rules in Connection With a Technology Migration) (“SR-BX-2020-017”).

Options 3, Section 7(b)(2) above. The Exchange is adding the same language into the description of SQF to provide a more complete description. The addition of this information would align the level of information of BX's rule text to MRX's rule text at Supplementary Material .03(c) to Options 3, Section 7. The proposed amendment to BX Options 3, Section 7(e)(1)(B) will not result in a System change.

The amendments proposed to Options 3, Section 7 do not change the current System functionality.

Options 3, Section 8

The Exchange proposes to amend BX Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price.¹⁷ Today, Section 8(h)(1) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. BX began rounding up when the Exchange modified certain functionality during a technology migration.¹⁸ Various parts

¹⁷ The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

¹⁸ See SR-BX-2020-017.

of the BX rules were amended to reflect that BX was rounding up.¹⁹ The Exchange inadvertently did not amend Options 3, Section 8(h)(1) to reflect that BX was rounding up. At this time, the Exchange proposes to amend the current language to reflect that it no longer rounds in the direction of the previous trading day's closing price. Instead, today, the System simply rounds up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. This proposed change is intended to bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. This change is identical to a change recently made in MRX Options 3, Section 8(g).²⁰ The proposed amendment to BX Options 3, Section 8(h)(1) will not result in a System change.

The Exchange further proposes to amend BX Options 3, Section 8(j)(3), which currently describes the determination of Opening Quote Range ("OQR") boundaries in certain scenarios.²¹ Specifically, the Exchange proposes to replace "are marketable against the ABBO" with "cross the ABBO" to precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, rather this amendment clarifies the applicability of the rule text. This change is identical to a change

¹⁹ Id.

²⁰ See SR-MRX-2022-18.

²¹ OQR is an additional type of boundary used in the Opening Process, and is intended to limit the opening price to a reasonable, middle ground price, thus reducing the potential for erroneous trades during the Opening Process.

recently made on MRX at Options 3, Section 8(i)(3).²² The proposed amendment to BX Options 3, Section 8(j)(3) will not result in a System change.

The Exchange proposes to amend BX Options 3, Section 8(k), which currently describes the Price Discovery Mechanism.²³ First, the Exchange proposes to amend Options 3, Section 8(k)(1)(A) by removing the phrase “or (ii) internal quotes are crossing each other.” Options 3, Section 8(d)(3) provides that the Opening Process will stop and an option series will not open, if the ABBO becomes crossed. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k) below. Further, where the internal quotes are crossed, Options 8, Section 8(i) rules apply. At the time that Options 3, Section 8(k)(1)(A) is applicable, the BX System has sent an Imbalance Message and the System would disseminate an Imbalance Message showing “0” volume and “\$0.00” price if no executions are possible, but routable interest is priced at or through the ABBO. Internal quotes would not be crossing each other at this point in the Opening Process. The Exchange proposes to remove this language which describes a scenario involving crossed orders.²⁴ The proposed amendment to BX Options 3, Section 8(k)(1)(A) will not result in a System change.

Second, the Exchange proposes to amend BX Options 3, Section 8(k)(4) to align

²² See SR-MRX-2022-18.

²³ The Price Discovery Mechanism is a process that the Exchange will undergo in the instance where the Exchange has not Opened with a BBO or Trade. The Price Discovery Mechanism will attempt to identify an Opening Price by attempting to satisfy the maximum number of contracts possible.

²⁴ The Exchange also proposes to take out (i) earlier in the sentence as unnecessary with the removal of (ii).

BX's rule text with that of MRX Options 3, Section 8(j)(6)(i) by stating "Pursuant to Options 3, Section 8(k)(3)(F), the System will re-price Do Not Route Orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to *the current away best offer (for bids) or the current away best bid (for offers) as non-displayed, and display at a price that is one minimum trading increment inferior to the ABBO, and disseminate the re-priced DNR Order as part of the new BBO.*" The proposed language more explicitly describes the manner in which the Exchange will re-price orders and would mirror rule text in BX Options 3, Section 4(b)(6). The proposed amendment to BX Options 3, Section 8(j)(6)(i) will not result in a System change.

Options 3, Section 11

The Exchange proposes to amend BX Options 3, Section 11 which describes the Block Order Mechanism. First, the Exchange proposes to amend the introductory paragraph to Options 3, Section 11 to add a new sentence which states, "Responses submitted by Participants shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended." This rule text is intended to provide greater clarity regarding responses that are entered into the Exchange's Block Order Mechanism. In 2020, BX adopted the Block Order Mechanism,²⁵ which it copied from Nasdaq ISE, LLC ("ISE") Options 3, Section 11. The proposed rule text within ISE Options 3, Section 11 concerning responses should also have been adopted at that time as the functionalities are identical. The proposed amendment to the introductory paragraph to BX Options 3, Section 11 will not result in a System change.

²⁵ See SR-BX-2020-023.

Second, the Exchange proposes to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments. Specifically, the Exchange proposes to state that with respect to Penny Prices, orders and Responses may be entered into the Block Order Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price under paragraph (a)(2)(A) may also receive executions at penny increments. When BX copied MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.²⁶ The proposed amendment to the introductory paragraph to BX Options 3, Section 11(a)(4) will not result in a System change.

Options 3, Section 13

The Exchange proposes to amend BX Options 3, Section 13 related to its Price Improvement Auction or “PRISM” to include the concept of “internal BBO” within the order entry checks. Specifically, the Exchange proposes to amend Options 3, Section 13(i)(A)-(C) to add the words “internal BBO”²⁷ where the NBBO is described. MRX recently added the same language to its Price Improvement Auction within Options 3. Section 13(b)(1) and (2).²⁸ The proposed changes will conform these order entry check to the concept of re-pricing at an internal BBO as described within Options 3, Sections 4(b)(6), 4(b)(7), 5(c) and 5(d), and will make clear that the PRISM Order measures the

²⁶ Id. MRX adopted this rule text in its Form 1 Application. See Securities Exchange Act Release No. 76998 (January 29, 2016), 81 FR 6066 (February 4, 2016) (File No. 10-221).

²⁷ The internal BBO refers to the Exchange’s non-displayed book.

²⁸ See SR-MRX-2022-16.

difference between the NBBO or the internal BBO to be \$0.01. Today, the Exchange utilizes the internal BBO to determine PRISM eligibility. The proposed amendment to the introductory paragraph of BX Options 3, Section 13(i)(A)-(C) will not result in a System change.

Additionally, the Exchange proposes to make a non-substantive amendment to replace the word “crosses” within BX Options 3, Section 13(ii)(B)(ii) with “improves beyond” to conform the word choice to Nasdaq PHLX LLC Options 3, Section 13(b)(2)(B) which similarly describes the interaction between Phlx’s Reference BBO and a stop price. The proposed amendment to Options 3, Section 13(ii)(B)(ii) will not result in a System change.

Options 3, Section 15

MRX recently amended its Order Price Protection (“OPP”)²⁹ rule to be functionally similar to the OPP functionality on BX.³⁰ MRX’s OPP rule utilized different rule text to explain the OPP functionality. At this time, the Exchange proposes to amend BX Options 3, Section 15(a)(1) to align BX’s rule text to MRX’s rule text within Options 3, Section 15(a)(1)(A). Specifically, the Exchange proposes to remove the references to “day limit, good til cancelled, and immediate or cancel orders” and, instead, simply refer to “limit” orders as that order type accurately captures the scope of the orders subject to OPP. This change would also make the sentence, “OPP applies to all options but does not apply to market orders,” unnecessary. The proposed amendment to Options 3, Section 15(a)(1) will not result in a System change.

²⁹ OPP prevents the execution of Limit Orders at prices outside pre-set parameters.

³⁰ See SR-MRX-2022-18.

Additionally, the Exchange proposes to amend its Acceptable Trade Range (“ATR”) Rule within BX Options 3, Section 15(b)(1).³¹ MRX recently amended its ATR rule to harmonize the rule to BX Options 3, Section 15(b)(1).³² MRX’s ATR rule utilized different rule text to explain the ATR functionality. At this time, the Exchange proposes to amend BX Options 3, Section 15(b)(1) to align BX’s rule text to MRX’s rule text within Options 3, Section 15(b)(1). Specifically, like MRX, BX’s ATR rule applies to orders and quotes. BX’s rule only discusses quotes, but as noted in the title to Options 3, Section 15(b), the ATR risk protection is an order and quote risk protection. To that end, first, the Exchange proposes to add the term “quote” or “quotes” as applicable next to the term “order” or “orders” throughout the BX ATR rule. Second, the Exchange proposes to begin the ATR rule text with “After the Opening Process” as this risk protection does not apply during the Opening Process today. This additional rule text provides greater clarity to the rule. Today, the ATR risk protection is not available during the Opening Process. Third, the Exchange proposes to add the concept of “internal BBO” into the ATR rule. The Exchange proposes to update the reference price definition to provide that upon receipt of a new order or quote, the reference price will now be the better of the NBB or internal best bid for sell orders/quotes and the better of the NBO or internal best offer for buy orders/quotes or the last price at which the order/quote is posted, whichever is higher for a buy order/quote or lower for a sell

³¹ ATR is designed to guard against the System from experiencing dramatic price swings by preventing the immediate execution of quotes and orders beyond the thresholds set by the protection.

³² See SR-MRX-2022-16.

order/quote.³³ The Exchange noted within the MRX rule change that its ATR reference price was functionally identical to BX's ATR reference price.³⁴ Fourth, the Exchange proposes to amend Options 3, Section 15(b)(1)(A) to add the words "after the Posting Period" to explain when a new ATR would be calculated to provide more context to the rule.³⁵ Fifth, similar to MRX Options 3, Section 15(a)(2)(A)(v) the Exchange proposes to add the following rule text within BX Options 3, Section 15(b)(1)(C),

There will be three categories of options for Acceptable Trade Range: (1) Penny Interval Program Options trading in one cent increments for options trading at less than \$3.00 and increments of five cents for options trading at \$3.00 or more, (2) Penny Interval Program Options trading in one-cent increments for all prices, and (3) Non-Penny Interval Program Options.

This is how BX operates today. This rule text makes clear the application of BX Options 3, Section 3 to the ATR rule by explicitly stating the Exchange's ability to set different ATR values by options category. These ATR values are set forth in BX's System Settings document which is posted online.³⁶ The Exchange believes this rule text will add greater clarity to the ATR rule. The proposed amendment to Options 3, Section 15(b)(1) will not result in a System change.

Options 3, Section 18

The Exchange proposes to amend Options 3, Section 18, Detection of Loss of Communication, to correct an error in a prior rule change. In 2019, BX relocated then

³³ The additions of "internal BBO" in this rule text are consistent with the addition of this term elsewhere in the rules.

³⁴ See SR-MRX-2022-16.

³⁵ The Exchange also proposes a technical amendment to add opening parentheses in two places.

³⁶ <https://www.nasdaq.com/docs/BXOptionsSystemSettings>.

Chapter VI, Section(e), Detection of Loss of Communication, to Chapter VI, Section 23.³⁷ BX noted in the rule change that it was not proposing to amend the Detection of Loss Communication rule.³⁸ In relocating the rule, it appears The Nasdaq Options Market, LLC's rule was inadvertently copied over instead of BX's rule. At the time, NOM did offer OTTO. BX has never offered OTTO. The Exchange proposes to reflect the absence of OTTO on BX by deleting rule text related to OTTO within Options 3, Sections 18(a)(1), (a)(3), 18(c), 18(f) and 18(g) and re-lettering the renaming items to reflect those deletions. The proposed amendment to Options 3, Section 18 will not result in a System change.

Options 5, Section 4

Options 5, Section 4 describes the manner in which BX routes orders. The Exchange proposes to amend BX Options 5, Section 4(a) to eliminate the following rule text,

The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice.

When ISE filed to amend its routing rules, it copied BX's Options 5, Section 4 routing rule, except that it did not adopt the aforementioned rule text.³⁹ At this time, the

³⁷ See Securities Exchange Act Release No. 87270 (October 10, 2019), 84 FR 55631 (October 17, 2019) (SR-BX-2019-033) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend BX Rules at Chapter VI, Section 6).

³⁸ Id.

³⁹ See Securities Exchange Act Release No. 94894 (May 18, 2022), 87 FR 30294 (May 12, 2022) (SR-ISE-2022-11) (Notice of Filing and Immediate Effectiveness

Exchange proposes to remove this unnecessary term that is not utilized elsewhere within Options 5, Section 4. Removing this rule text will harmonize BX's Options 5, Section 4 rule with ISE's Options 5, Section 4. The proposed amendment to Options 5, Section 4(a) will not result in a System change.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁴⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴¹ 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.

Option 3, Sections 4 and 5

The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) is consistent with the Act as it will codify existing functionality, thereby promoting transparency in the Exchange's rules and reducing any potential confusion.⁴² This functionality provides Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate, consistent with the purpose of the bulk message functionality to facilitate Market Makers' provision of liquidity. By providing Market Makers with additional

of Proposed Rule Change To Amend Routing Functionality in Connection With a Technology Migration).

⁴⁰ 15 U.S.C. 78f(b).

⁴¹ 15 U.S.C. 78f(b)(5).

⁴² As discussed above, this existing functionality is currently described in the Exchange's publicly available technical specifications. See supra note 3.

control over the quotes they use to provide liquidity to the Exchange, this tool may benefit all investors through additional execution opportunities at potentially improved prices. Today, MRX offers this same functionality within Options 3, Section 4(b)(3). Further, the Exchange does not believe that the offering the bulk message functionality to only Market Makers would permit unfair discrimination. Market Makers play a unique and critical role in the options market by providing liquidity and active markets, and are subject to various quoting obligations which other market participants are not, including obligations to maintain active markets, update quotes in response to changed market conditions, to compete with other Market Makers in its appointed classes, and to provide intra-day quotes in its appointed classes.⁴³ Bulk message functionality provides Market Makers with a means to help them satisfy these obligations. The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(3) will not result in a System change.

The Exchange's proposal to amend Options 3, Section 4(b)(6) to make clear that the actual price remains non-displayed during re-pricing is consistent with the Act and removes impediments to and perfects the mechanism of a free and open market and a national market system because it displays a re-priced order that does not lock or cross an away market. The rule text clearly explains that the best bid or offer will be non-displayed and the re-priced order will be displayed. A similar change is proposed for BX Options 3, Section 5(d). MRX recently amended Options 3, Section 4(b)(6) and Options 3, Section 5(d) to include the same language.⁴⁴ The proposed change aligns BX's rule text to MRX's rule text. The proposed amendment to the Rulebook to add BX Options 3,

⁴³ See Options 2, Sections 4 and 5.

⁴⁴ See SR-MRX-2022-16.

Section 4(b)(6) will not result in a System change.

The Exchange’s proposal to add a new Options 3, Section 4(b)(7) to clarify that, today, BX’s System will automatically execute eligible quotes using the Exchange’s displayed best bid and offer (“BBO”) or the Exchange’s non-displayed order book (“internal BBO”) if the best bid and/or offer on the Exchange has been repriced pursuant to Options 3, Section 5(d) and Options 3, Section 4(b)(6) is consistent with the Act and protects investors and the public interest. This rule text seeks to codify the current System function and make clear that the internal BBO is comprised of both orders and quotes, both of which are considered for price checks. MRX recently amended Options 3, Section 4(b)(7) to include this language.⁴⁵ The proposed change aligns BX’s rule text to MRX’s rule text. The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(7) will not result in a System change.

Options 3, Section 7

The Exchange’s proposal to amend the title of Options 3, Section 7 from “Types of Orders and Quote Protocols” to “Types of Orders and Order and Quote Protocols” aligns BX’s title to MRX Options 3, Section 7. This change is non-substantive.

The Exchange’s proposal to amend Options 3, Section 7(a)(9) to add the word “Order” after “PRISM” is a non-substantive amendment that aligns the term to its usage within BX Options 3, Section 13.

The Exchange’s proposal to amend the rule text of Options 3, Section 7(a)(8), related to an Opening Sweep, and (b)(1) related to OPG orders, is consistent with the Act and protects investors and the general public because the availability of Market Wide

⁴⁵ Id.

Risk Protection during the Opening Process assists Participants in managing their pre-open risk. The Market Wide Risk Protection is designed to reduce risk associated with System errors or market events that may cause Participants to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. The proposed amendments to BX Options 3, Section 7(a)(8) and (b)(1) will not result in a System change.

The Exchange's proposal to amend the rule text of Options 3, Section 7(b)(2)(C) to add Block Orders and Customer Cross Orders to Options 3, Section 7(b)(2)(C) and replace the term "Price Improvement Auction ("PRISM") Mechanism" with "PRISM Orders" is consistent with the Act. In 2020, BX adopted Block Orders and Customer Cross Orders in a technology migration⁴⁶ and should have added those order types to this list. At this time, the Exchange proposes to update this rule to include these order types. Further, the Exchange proposes to state that "By their terms, these orders will be: (1) executed either on entry or after the exposure period, or (2) cancelled." The additional language is being added because Customer Cross Orders may be executed upon entry provided all the terms are satisfied. This proposed change aligns to MRX Supplementary Material .02(d)(3) of Options 3, Section 7. The proposed amendments to BX Options 3, Section 7(b)(2)(C) will not result in a System change.

The Exchange's proposal amends the description of SQF within Options 3, Section 7(e)(1)(B) is consistent with the Act as this rule text is currently noted within Options 3, Section 7(b)(2) above. The addition of this language into the description of SQF provides a more complete description of this protocol. The addition of this

⁴⁶ See supra note 16.

information also aligns the level of information with that offered on MRX for SQF within Supplementary Material .03(c) to Options 3, Section 7. The proposed amendment to BX Options 3, Section 7(e)(1)(B) will not result in a System change.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price, is consistent with the Act and protects investors and the public interest. BX began rounding up when the Exchange modified certain functionality during a technology migration.⁴⁷ Various parts of the BX rules were amended to reflect that BX was rounding up.⁴⁸ The Exchange inadvertently did not amend Options 3, Section 8(h)(1) to reflect that BX was rounding up. At this time, the Exchange proposes to amend the current language to reflect that it no longer rounds in the direction of the previous trading day's closing price. Today, the System simply rounds up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. This proposed change is intended to bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. This change is identical to a change recently made in MRX Options 3, Section 8(g).⁴⁹ The proposed amendment to BX Options 3, Section 8(h)(1) will not result in a System change.

⁴⁷ See SR-BX-2020-017.

⁴⁸ Id.

⁴⁹ See SR-MRX-2022-18.

The Exchange's proposal to amend Options 3, Section 8(j)(3), which currently describes the determination of OQR boundaries in certain scenarios is consistent with the Act. Replacing the phrase "are marketable against the ABBO" with "cross the ABBO" serves to precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, rather this amendment clarifies the applicability of the rule text. This change is identical to a change recently made on MRX at Options 3, Section 8(i)(3).⁵⁰ The proposed amendment to BX Options 3, Section 8(j)(3) will not result in a System change.

The proposal to amend Options 3, Section 8(k)(1)(A) by removing the phrase "or (ii) internal quotes are crossing each other" remove impediments to and perfect the mechanism of a free and open market and a national market system by removing a scenario from this section of the rule that is covered elsewhere. Options 3, Section 8(d)(3) provides that the Opening Process will stop and an option series will not open, if the ABBO becomes crossed. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k) below. Further, where the internal quotes are crossed, Options 8, Section 8(i) rules apply. At the time that Options 3, Section 8(k)(1)(A) is applicable, the BX System has sent an Imbalance Message and the System would disseminate an Imbalance Message showing "0" volume and "\$0.00" price if no executions are possible, but routable interest is priced at or through the ABBO. Internal quotes would not be crossing each other at this point in the Opening Process. The proposed amendment to BX Options 3, Section 8(k)(1)(A) will not result in a System change.

⁵⁰ Id.

The Exchange's proposal to amend Options 3, Section 8(k)(4) to align BX's rule text with that of MRX Options 3, Section 8(j)(6)(i) is consistent with the Act because it explicitly describes the manner in which the Exchange will re-price orders and mirrors rule text similar to the language within Options 3, Section 4(b)(6). The proposed amendment to BX Options 3, Section 8(j)(6)(i) will not result in a System change.

Options 3, Section 11

The Exchange's proposal to amend the introductory paragraph to Options 3, Section 11 to provide greater clarity regarding responses that are entered into the Exchange's Block Order Mechanism is consistent with the Act and protects investors and the public interest. In 2020, BX adopted the Block Order Mechanism,⁵¹ which it copied from ISE Options 3, Section 11. This rule text concerning responses should also have been adopted at that time as the functionality on BX is identical to that on ISE. The proposed amendment to the introductory paragraph to BX Options 3, Section 11 will not result in a System change

The Exchange's proposal to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments is consistent with the Act as it will make clear the manner in which minimum increments apply within this mechanism. This language codifies current System behavior. When BX copied the MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.⁵² The proposed amendment to the introductory paragraph to BX Options 3, Section 11(a)(4) will not result in a System change.

⁵¹ See SR-BX-2020-023.

⁵² Id.

Options 3, Section 13

The Exchange's proposal to amend Options 3, Section 13 related to PRISM to include the concept of "internal BBO" within the order entry checks is consistent with the Act and protects investors and the public interest. The proposed changes will conform these order entry check to the concept of re-pricing at an internal BBO as described within BX Options 3, Sections 4(b)(6), 4(b)(7), 5(c) and 5(d), and will make clear that the PRISM Order measures the difference between the NBBO or the internal BBO to be \$0.01. MRX recently added the same language to its Price Improvement Auction within Options 3, Section 13.⁵³ The proposed amendment to the introductory paragraph of BX Options 3, Section 13(i)(A)-(C) will not result in a System change.

The Exchange's proposal to replace the word "crosses" within Options 3, Section 13(ii)(B)(ii) with "improves beyond" conforms the word choice to Nasdaq PHLX LLC Options 3, Section 13(b)(2)(B) which similarly describes the interaction between Phlx's Reference BBO and a stop price. The proposed amendment to Options 3, Section 13(ii)(B)(ii) will not result in a System change.

Options 3, Section 15

The Exchange's proposal to amend BX Options 3, Section 15(a)(1) to align BX's OPP rule text to MRX's OPP rule text within Options 3, Section 15(a)(1)(A) is consistent with the Act⁵⁴ because removing the references to "day limit, good til cancelled, and immediate or cancel orders and, instead, referring to "limit" orders accurately captures

⁵³ See SR-MRX-2022-16.

⁵⁴ MRX recently amended its Order Price Protection ("OPP") rule to be functionally similar to the OPP functionality on BX. See SR-MRX-2022-18.

the scope of the orders subject to OPP. This change would also make unnecessary the remainder of the rule text stating it does not apply to market orders. The proposed amendment to Options 3, Section 15(a)(1) will not result in a System change.

The Exchange's proposal to amend the ATR Rule within Options 3, Section 15(b)(1) is consistent with the Act. MRX recently amended its ATR rule to harmonize the rule with BX Options 3, Section 15(b)(1).⁵⁵ MRX's ATR rule utilized different rule text to explain the ATR functionality. Amending BX Options 3, Section 15(b)(1) to align BX's rule text to MRX's rule text within Options 3, Section 15(b)(1) is consistent with the Act because like MRX, BX's ATR rule applies to orders and quotes. BX's rule only discusses quotes, but as noted in the title to Options 3, Section 15(b), the ATR risk protection is an order and quote risk protection. The Exchange's proposal to begin the rule text with "After the Opening Process" is consistent with the Act as this risk protection does not apply during the Opening Process today. This additional rule text provides greater clarity to the rule. The Exchange's proposal to add the concept of "internal BBO" into the ATR rule is consistent with the Act and protects investors and the public interest by specifying that the reference price definition is the better of the NBB or internal best bid for sell orders/quotes and the better of the NBO or internal best offer for buy orders/quotes or the last price at which the order/quote is posted, whichever is higher for a buy order/quote or lower for a sell order/quote. The Exchange noted within the MRX rule change that the proposed additional functionality is identical to BX's ATR reference price.⁵⁶ The Exchange's proposal to amend Options 3, Section

⁵⁵ See SR-MRX-2022-16.

⁵⁶ Id.

15(b)(1)(A) to add the words “after the Posting Period” to explain when a new ATR would be calculated provides more context to the rule. Adding rule text within BX Options 3, Section 15(b)(1)(C) to make clear the Exchange’s ability to set different ATR values by options category is consistent with the Act because the ATR risk protection limits the range of prices at which an order and quote trades and would take into account the minimum increment. The ability for the Exchange to set the ATR based on the increment allows the Exchange to set appropriate limits. The Exchange believes this rule text will add greater clarity to the ATR rule. The proposed amendment to Options 3, Section 15(b)(1) will not result in a System change.

Options 3, Section 18

Amending Options 3, Section 18, Detection of Loss of Communication, to delete rule text related to OTTO within Options 3, Sections 18(a)(1), (a)(3), 18(c), 18(f) and 18(g) and re-lettering the renaming items to reflect those deletions is consistent with the Act because it corrects a prior error when this rule was relocated within the Rulebook by placing the replica of the original rule from SR-BX-2019-033 into its Rulebook. The proposed amendment to Options 3, Section 18 will not result in a System change.

Options 5, Section 4

Eliminating an unnecessary term in Options 5, Section 4(a) that is not utilized elsewhere within Options 5, Section 4 which is unnecessary is consistent with the Act as it will remove confusion. The proposed amendment to Options 5, Section 4(a) will not result in a System change.

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.

Option 3, Sections 4 and 5

The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) does not impose an undue burden on intra-market competition. While the Exchange currently offers this functionality to Market Makers only, bulk messaging is intended to provide Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate. As such, the Exchange believes that this functionality may facilitate Market Makers' provision of liquidity, thereby benefiting all market participants through additional execution opportunities at potentially improved prices. Furthermore, while the Exchange will offer the proposed Post-Only Quote Configuration to Market Makers only, the proposed risk protection will enhance the ability of Market Makers to add liquidity and avoid removing liquidity from the Exchange's order book in the manner described above. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) does not impose an undue burden on inter-market competition as other options exchanges may adopt this functionality.

The Exchange's proposal to amend BX's rules at Options 3, Section 4(b)(6) and Options 3, Section 4(b)(7) do not impose an undue burden on competition because all options markets must not trade-through other orders on their markets as well as away

markets. The proposed change aligns BX's rule text to MRX's rule text.

Options 3, Section 7

The Exchange's proposal to amend the rule text of BX Options 3, Section 7(a)(8), related to an Opening Sweep, and (b)(1), related to OPG orders, does not impose an undue burden competition because the availability of Market Wide Risk Protection during the Opening Process assists all Participants in managing their pre-open risk.

The Exchange's proposal to amend the rule text at BX Options 3, Section 7(b)(2)(C) to add Block Orders and Customer Cross Orders to Options 3, Section 7(b)(2)(C) and replace the term "Price Improvement Auction ("PRISM") Mechanism" with "PRISM Orders" does not impose an undue burden on competition as these order types are well established and the manner in which they trade is specified in each of the particular auction rules. This proposed change aligns to MRX Supplementary Material .02(d)(3) of Options 3, Section 7.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price, does not impose an undue burden on competition. BX began uniformly rounding up when the Exchange modified certain functionality during a technology migration, this amendment makes clear the System functionality.

The proposal to amend Options 3, Section 8(k)(1)(A) by removing the phrase "or (ii) internal quotes are crossing each other" does not impose an undue burden on intra-market competition because internal quotes would not be crossing each other at this point in the Opening Process. All Participants are subject to the Opening Process rule.

Options 3, Section 11

The Exchange's proposal to amend the introductory paragraph to Options 3, Section 11 does not impose an undue burden on competition, rather it provides greater clarity regarding responses that are entered into the Exchange's Block Order Mechanism. In 2020, BX adopted the Block Order Mechanism,⁵⁷ which it copied from ISE Options 3, Section 11. This rule text concerning responses should also have been adopted at that time as the functionality on BX is identical to that on ISE.

The Exchange's proposal to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments does not impose an undue burden on competition as it will make clear the manner in which minimum increments apply within this mechanism. When BX copied the MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.⁵⁸

Options 3, Section 13

The Exchange's proposal to amend Options 3, Section 13 related to its Price Improvement Auction to include the concept of "internal BBO" within the order entry checks does not impose an undue burden on competition because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX's rule text to MRX's rule text.

Options 3, Section 15

The Exchange's proposal to amend BX Options 3, Section 15(a)(1) to align BX's OPP rule text to MRX's OPP rule text within Options 3, Section 15(a)(1)(A) does not

⁵⁷ See SR-BX-2020-023.

⁵⁸ Id.

impose an undue burden on competition because removing the references to “day limit, good til cancelled, and immediate or cancel orders and, instead, referring to “limit” orders accurately captures the scope of the orders subject to OPP. This change would also make unnecessary the remainder of the rule text stating it does not apply to market orders.

The Exchange’s proposal to amend the ATR Rule within Options 3, Section 15(b)(1) does not impose an undue burden on competition. Like MRX, BX’s ATR rule applies to orders and quotes as noted in the title to Options 3, Section 15(b), the ATR risk protection is an order and quote risk protection. Additionally, ATR does not apply during the Opening Process today. Further, adding the concept of “internal BBO” into the ATR rule because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX’s rule text to MRX’s rule text.

Adding rule text within BX Options 3, Section 15(b)(1)(C) to make clear the Exchange’s ability to set different ATR values by options category does not impose an undue burden on competition because the ability for the Exchange to set the ATR based on the increment allows the Exchange to set appropriate limits. The Exchange believes this rule text will add greater clarity to the ATR rule.

Options 3, Section 18

Amending Options 3, Section 18, Detection of Loss of Communication, to remove references to OTTO does not impose an undue burden on competition because it corrects a prior error when this rule was relocated within the Rulebook by placing the replica of the original rule from SR-BX-2019-033 into its Rulebook.

Options 5, Section 4

Eliminating an unnecessary reference within amend Options 5, Section 4(a) does

not impose an undue burden on competition because the term is not utilized elsewhere within Options 5, Section 4.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)⁵⁹ of the Act and Rule 19b-4(f)(6) thereunder⁶⁰ 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.

As described in Items 3 and 4 above, the majority of the proposed rule changes are based on the rules of MRX and ISE. The proposed rule changes align the Exchange’s System functionality across the Nasdaq affiliated options exchanges. The proposed rule changes are consistent with the protection of investors and the public interest because it will allow the Exchange to continue to harmonize its technology on Nasdaq affiliated options exchanges. All System functionality as described above will be available to all

⁵⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

⁶⁰ 17 CFR 240.19b-4(f)(6).

Participants, other than the bulk message functionality. While these tools are only available to Market Makers, the Exchange believes that its offerings will encourage Market Makers to quote tighter and deeper markets, which will increase liquidity on the Exchange, thereby benefiting all market participants in the quality of order interaction. The Exchange believes that the proposed changes do not significantly affect the protection of investors or the public interest for these reasons and further the proposed rule changes.

The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) does not impose any significant burden on competition. While the Exchange currently offers this functionality to Market Makers only, bulk messaging is intended to provide Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate. As such, the Exchange believes that this functionality may facilitate Market Makers' provision of liquidity, thereby benefiting all market participants through additional execution opportunities at potentially improved prices. Furthermore, while the Exchange will offer the proposed Post-Only Quote Configuration to Market Makers only, the proposed risk protection will enhance the ability of Market Makers to add liquidity and avoid removing liquidity from the Exchange's order book in the manner described above. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. The Exchange's proposal to amend Options 3, Section 4(b)(6) and Options 3, Section 4(b)(7) does not impose any significant burden on competition because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX's rule text to

MRX's rule text. The Exchange's proposal to amend Options 3, Section 7(a)(8), related to an Opening Sweep, and (b)(1) related to OPG orders, does not impose any significant burden on competition because the availability of Market Wide Risk Protection during the Opening Process assists Participants in managing their pre-open risk. The Exchange's proposal to amend the rule text in Options 3, Section 7(b)(2)(C) to add Block Orders and Customer Cross Orders to Options 3, Section 7(b)(2)(C) and replace the term "Price Improvement Auction ("PRISM") Mechanism" with "PRISM Orders" does not impose any significant burden on competition as these order types are well established and the manner in which they trade is specified in each of the particular auction rules. This proposed change aligns to MRX Supplementary Material .02(d)(3) of Options 3, Section 7. The Exchange's proposal to amend the rule text in Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price, does not impose any significant burden on competition. BX began uniformly rounding up when the Exchange modified certain functionality during a technology migration, this amendment makes clear the System functionality. The proposal to amend the rule text in Options 3, Section 8(k)(1)(A) by removing the phrase "or (ii) internal quotes are crossing each other" does not impose any significant burden on competition because internal quotes would not be crossing each other at this point in the Opening Process. The Exchange's proposal to amend the introductory paragraph to Options 3, Section 11 does not impose any significant burden on competition, rather it provides greater clarity regarding responses that are entered into the Exchange's Block Order Mechanism. In 2020, BX adopted the Block Order

Mechanism,⁶¹ which it copied from ISE Options 3, Section 11. This rule text concerning responses should also have been adopted at that time as the functionality on BX is identical to that on ISE. The Exchange’s proposal to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments does not impose any significant burden on competition as it will make clear the manner in which minimum increments apply within this mechanism. When BX copied the MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.⁶² The Exchange’s proposal to amend Options 3, Section 13 related to its Price Improvement Auction to include the concept of “internal BBO” within the order entry checks does not impose any significant burden on competition because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX’s rule text to MRX’s rule text. The Exchange’s proposal to amend BX Options 3, Section 15(a)(1) to align BX’s OPP rule text to MRX’s OPP rule text within Options 3, Section 15(a)(1)(A) does not impose any significant burden on competition because removing the references to “day limit, good til cancelled, and immediate or cancel orders and, instead, referring to “limit” orders accurately captures the scope of the orders subject to OPP. This change would also make unnecessary the remainder of the rule text stating it does not apply to market orders. The Exchange’s proposal to amend the ATR Rule within Options 3, Section 15(b)(1) does not impose any significant burden on competition. Like MRX, BX’s ATR rule applies to orders and quotes as noted in the title to Options 3, Section

⁶¹ See SR-BX-2020-023.

⁶² Id.

15(b), the ATR risk protection is an order and quote risk protection. Additionally, ATR does not apply during the Opening Process today. Further, adding the concept of “internal BBO” into the ATR rule because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX’s rule text to MRX’s rule text. Adding rule text within BX Options 3, Section 15(b)(1)(C) to make clear the Exchange’s ability to set different ATR values by options category does not impose any significant burden on competition because the ability for the Exchange to set the ATR based on the increment allows the Exchange to set appropriate limits. The Exchange believes this rule text will add greater clarity to the ATR rule. Eliminating an unnecessary reference within amend Options 5, Section 4(a) does not impose any significant burden on competition because the term is not utilized elsewhere within Options 5, Section 4.

Furthermore, Rule 19b-4(f)(6)(iii)⁶³ 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.

⁶³ 17 CFR 240.19b-4(f)(6)(iii).

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

Various proposed BX rule changes are identical to MRX and ISE rule text, such as:

- the bulk message functionality proposed within BX Options 3, Section 4(b)(3), which is identical to functionality within MRX Options 3, Section 4(b)(3);
- the amendment to quote and order re-pricing within BX Options 3, Section 4(b)(6) and (7) and Options 3, Section 5(d), which are identical to MRX Options 3, Section 4(b)(6) and (7) and Options 3, Section 5(d), respectively;
- the amendment to order types within BX Options 3, Section 7(b)(2)(C), which is identical to MRX Supplementary Material .02(d)(3) of Options 3, Section 7;
- the amendment to the description of the SQF protocol within BX Options 3, Section 7(e)(1)(B), which is identical to MRX Supplementary Material .03(c) to Options 3, Section 7;
- the amendment to the Opening Process within BX Options 3, Section 8(j)(3), and Options 3, Section 8(k)(1)(A), which are identical to MRX Options 3, Section 8(i)(3) and Options 3, Section 8(j)(6)(i), respectively;
- the amendment to the Block Order Mechanism within BX Options 3, Section 11, which is identical to ISE Options 3, Section 11;
- the amendment to PRISM within BX Options 3, Section 13(i)(A)-(C), which is identical to MRX Options 3. Section 13(b)(1) and (2);
- the amendment to OPP within BX Options 3, Section 15(a)(1) is identical to rule text MRX Options 3, Section 15(a)(1)(A); and

▪ the amendment to ATR within BX Options 3, Section 15(b)(1), which is identical to MRX Options 3, Section 15(b)(1).

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.

5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-BX-2023-013)

May __, 2023

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Various Options 3 Rules and Options 5, Section 4

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 16, 2023, 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, Options Trading Rules, at: Section 4 Entry and Display of Quotes; Section 5, Entry and Display of Orders; Section 7, Types of Orders and Quote Protocols; Section 8, Options Opening Process; Section 11, Auction Mechanisms; Section 13, Price Improvement Auction (“PRISM”); Section 15, Risk Protections; and Options 3, Section 18, Detection of Loss of Communication. The Exchange also proposes to amend Options 5, Section 4, Order Routing.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

BX proposes to amend Options 3, Options Trading Rules, at: Section 4, Entry and Display of Quotes; Section 5, Entry and Display of Orders; Section 7, Types of Orders and Quote Protocols; Section 8, Options Opening Process; Section 11, Auction Mechanisms; Section 13, Price Improvement Auction ("PRISM"); Section 15, Risk Protections; and Options 3, Section 18, Detection of Loss of Communication. The Exchange also proposes to amend Options 5, Section 4, Order Routing. Each change will be discussed below. The amendments proposed herein seek to codify the current System functionality. The proposed amendments will not result in System changes.

Option 3, Sections 4 and 5

The Exchange proposes to codify existing functionality that allows Market Makers to submit their quotes to the Exchange in block quantities as a single bulk message. In other words, a Market Maker may submit a single message to the Exchange, which may contain bids and offers in multiple series. The Exchange's current rules do not specify bulk messaging for orders. The Exchange has historically provided Market

Makers with information regarding bulk messaging in its publicly available technical specifications.³ To promote greater transparency, the Exchange is seeking to codify this functionality in its Rulebook. Specifically, the Exchange proposes to amend BX Options 3, Section 4(b)(3) to memorialize that quotes may be submitted as a bulk message. The Exchange also proposes to add a definition of “bulk message” in new subparagraph (i) of Options 3, Section 4(b)(3), which will provide that a bulk message means a single electronic message submitted by a Market Maker to the Exchange which may contain a specified number of quotations as designated by the Exchange.⁴ The bulk message, submitted via SQF,⁵ may enter, modify, or cancel quotes. Bulk messages are handled by the System in the same manner as it handles a single quote message. MRX recently added bulk messages to MRX Options 3, Section 4(b)(3).⁶ The proposed amendment to

³ See https://www.nasdaq.com/docs/2023/01/12/0054-Q23_SQF_8.2b%20akg_NAM.pdf (specifying for bulk quoting of up to 200 quotes per quote block message). The specifications note in other places the manner in which a Participant can send such quote block messages.

⁴ Id. As noted above, quote bulk messages can presently contain up to 200 quotes per message. This is the maximum amount that is permitted in a bulk message. The Exchange would announce any change to these specifications in an Options Technical Update distributed to all Participants.

⁵ “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 to 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).

the Rulebook to add BX Options 3, Section 4(b)(3) will not result in a System change.

The Exchange also proposes to amend BX Options 3, Section 4(b)(6) to provide the following,

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) *as non-displayed*, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

Where a quote is re-priced to avoid a locked or crossed market, the best bid or offer will be non-displayed and the re-priced order will be displayed at a price that is one minimum trading increment inferior to the ABBO. A similar change is proposed for Options 3, Section 5(d). MRX recently amended Options 3, Section 4(b)(6) and Options 3, Section 5(d) to include this language.⁷ At this time, the Exchange proposes to amend BX's rule text to reflect that the actual price remains non-displayed in this scenario. The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(6) will not result in a System change.

Similarly, the Exchange proposes to add a new BX Options 3, Section 4(b)(7) to clarify that, today, BX's System will automatically execute eligible quotes using the

⁶ See Securities Exchange Act, Release No. 95982 (October 4, 2022), 87 FR 61391 (October 11, 2022) (SR-MRX-2022-18) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Rules in Connection With a Technology Migration to Enhanced Nasdaq Functionality) ("SR-MRX-2022-18").

⁷ See Securities Exchange Act, Release No. 95807 (September 16, 2022), 87 FR 57933 (September 22, 2022) (SR-MRX-2022-16) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Certain Rules in Connection With a Technology Migration to Enhanced Nasdaq Functionality) ("SR-MRX-2022-16").

Exchange's displayed best bid and offer ("BBO") or the Exchange's non-displayed order book ("internal BBO")⁸ if the best bid and/or offer on the Exchange has been repriced pursuant to Options 3, Section 5(d) and Options 3, Section 4(b)(6). This rule text seeks to codify the current System function and make clear that the internal BBO is comprised of both orders and quotes.⁹ MRX recently amended Options 3, Section 4(b)(7) to include the same language.¹⁰ At this time, the Exchange proposes to align BX's rule text in Options 3, Section 4(b)(7) to MRX's rule text in Options 3, Section 4(b)(7). The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(7) will not result in a System change.

Finally, the Exchange proposes to amend BX Options 3, Section 5(c) to include a citation to Options 3, Section 4(b)(6) as the internal BBO is comprised of both orders and quotes, similar to MRX.¹¹

The amendments proposed to Options 3, Sections 4 and 5 do not change the current System functionality.

Options 3, Section 7

The Exchange proposes to amend the title of BX Options 3, Section 7 from "Types of Orders and Quote Protocols" to "Types of Orders and Order and Quote Protocols" so that it may align BX's title to MRX Options 3, Section 7.

The Exchange proposes to amend BX Options 3, Section 7(a)(9) to add the word

⁸ The internal BBO refers to the Exchange's non-displayed book.

⁹ The Exchange also proposes to re-number current Options 3, Section 4(b)(7) as (8).

¹⁰ See SR-MRX-2022-16.

¹¹ Id.

“Order” after “PRISM”. This is a non-substantive technical amendment to align the term to its usage within Options 3, Section 13.

The Exchange proposes to amend the rule text of BX Options 3, Section 7(a)(8), related to an Opening Sweep,¹² and (b)(1), related to Opening Only¹³ or “OPG” orders, to reflect a current System function. The Exchange proposes to specify that these order types are subject to the Market Wide Risk Protection within Options 3, Section 15. The Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) automatically removes orders when certain firm-set thresholds are met. Specifically, the Market Wide Risk Protection requires all Participants to provide parameters for the order entry and execution rate protections. Today, the Market Wide Risk Protection applies to Opening Sweep Orders and OPG Orders, similar to other order types, and allows BX Participants to manage their exposure to risk in the Opening Process, described in Options 3, Section 8, as well as intra-day. The Market Wide Risk Protection is designed to reduce risk associated with System errors or market events that may cause Participants to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Specifically, the availability of Market Wide Risk Protection during the Opening Process assists Participants in managing their pre-open risk. The proposed amendments to BX Options 3, Section 7(a)(8) and (b)(1) will not result in a System change.

The Exchange proposes to amend the rule text at BX Options 3, Section

¹² An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process.

¹³ An OPG order is entered with a TIF of “OPG.” This order can only be executed in the Opening Process pursuant to Options 3, Section 8. See Options 3, Section 7(b)(1).

7(b)(2)(C) to add Block Orders¹⁴ and Customer Cross Orders¹⁵ to Options 3, Section 7(b)(2)(C) and replace the term “Price Improvement Auction (“PRISM”) Mechanism” with “PRISM Orders.” The proposed sentence would state that “Block Orders, Customer Cross Orders, and PRISM Orders are considered to have a TIF of IOC.” In 2020, BX adopted Block Orders and Customer Cross Orders in a technology migration.¹⁶ At that time, the Exchange should have added those order types to this list. At this time, the Exchange proposes to update this list to include these order types. Further, the Exchange proposes to state that, “By their terms, these orders will be: (1) executed either on entry or after the exposure period, or (2) cancelled.” The additional language is being added because Customer Cross Orders may be executed upon entry, provided all the terms are satisfied. This proposed change aligns BX’s rule text to MRX’s rule text at Supplementary Material .02(d)(3) of Options 3, Section 7. The proposed amendments to BX Options 3, Section 7(b)(2)(C) will not result in a System change.

Finally, the Exchange proposes to amend the description of Specialized Quote Feed or “SQF” within BX Options 3, Section 7(e)(1)(B) to add rule text which states, “Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price

¹⁴ A “Block Order” is an order entered into the Block Order Mechanism as described in Options 3, Section 11(a). See Options 3, Section 7(a)(11).

¹⁵ A “Customer Cross Order” is as described in Options 3, Section 12(a). See Options 3, Section 7(a)(10).

¹⁶ See Securities Exchange Act, Release No. 89759 (September 3, 2020), 85 FR 55886 (September 10, 2020) (SR-BX-2020-023) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Rules in Connection With a Technology Migration to Enhanced Nasdaq, Inc. Functionality) (“SR-BX-2020-023”). See also Securities Exchange Act, Release No. 89476 (August 4, 2020), 85 FR 482274 (August 10, 2020) (SR-BX-2020-017) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various BX Rules in Connection With a Technology Migration) (“SR-BX-2020-017”).

Protection, Market Order Spread Protection, or Size Limitation Protection in Options 3, Section 15(a)(1), (a)(2), and (b)(2) respectively.” This rule text is currently noted within Options 3, Section 7(b)(2) above. The Exchange is adding the same language into the description of SQF to provide a more complete description. The addition of this information would align the level of information of BX’s rule text to MRX’s rule text at Supplementary Material .03(c) to Options 3, Section 7. The proposed amendment to BX Options 3, Section 7(e)(1)(B) will not result in a System change.

The amendments proposed to Options 3, Section 7 do not change the current System functionality.

Options 3, Section 8

The Exchange proposes to amend BX Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price.¹⁷ Today, Section 8(h)(1) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. BX began rounding up when the Exchange modified certain functionality during a technology migration.¹⁸ Various parts

¹⁷ The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

¹⁸ See SR-BX-2020-017.

of the BX rules were amended to reflect that BX was rounding up.¹⁹ The Exchange inadvertently did not amend Options 3, Section 8(h)(1) to reflect that BX was rounding up. At this time, the Exchange proposes to amend the current language to reflect that it no longer rounds in the direction of the previous trading day's closing price. Instead, today, the System simply rounds up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. This proposed change is intended to bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. This change is identical to a change recently made in MRX Options 3, Section 8(g).²⁰ The proposed amendment to BX Options 3, Section 8(h)(1) will not result in a System change.

The Exchange further proposes to amend BX Options 3, Section 8(j)(3), which currently describes the determination of Opening Quote Range ("OQR") boundaries in certain scenarios.²¹ Specifically, the Exchange proposes to replace "are marketable against the ABBO" with "cross the ABBO" to precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, rather this amendment clarifies the applicability of the rule text. This change is identical to a change

¹⁹ Id.

²⁰ See SR-MRX-2022-18.

²¹ OQR is an additional type of boundary used in the Opening Process, and is intended to limit the opening price to a reasonable, middle ground price, thus reducing the potential for erroneous trades during the Opening Process.

recently made on MRX at Options 3, Section 8(i)(3).²² The proposed amendment to BX Options 3, Section 8(j)(3) will not result in a System change.

The Exchange proposes to amend BX Options 3, Section 8(k), which currently describes the Price Discovery Mechanism.²³ First, the Exchange proposes to amend Options 3, Section 8(k)(1)(A) by removing the phrase “or (ii) internal quotes are crossing each other.” Options 3, Section 8(d)(3) provides that the Opening Process will stop and an option series will not open, if the ABBO becomes crossed. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k) below. Further, where the internal quotes are crossed, Options 8, Section 8(i) rules apply. At the time that Options 3, Section 8(k)(1)(A) is applicable, the BX System has sent an Imbalance Message and the System would disseminate an Imbalance Message showing “0” volume and “\$0.00” price if no executions are possible, but routable interest is priced at or through the ABBO. Internal quotes would not be crossing each other at this point in the Opening Process. The Exchange proposes to remove this language which describes a scenario involving crossed orders.²⁴ The proposed amendment to BX Options 3, Section 8(k)(1)(A) will not result in a System change.

Second, the Exchange proposes to amend BX Options 3, Section 8(k)(4) to align

²² See SR-MRX-2022-18.

²³ The Price Discovery Mechanism is a process that the Exchange will undergo in the instance where the Exchange has not Opened with a BBO or Trade. The Price Discovery Mechanism will attempt to identify an Opening Price by attempting to satisfy the maximum number of contracts possible.

²⁴ The Exchange also proposes to take out (i) earlier in the sentence as unnecessary with the removal of (ii).

BX's rule text with that of MRX Options 3, Section 8(j)(6)(i) by stating "Pursuant to Options 3, Section 8(k)(3)(F), the System will re-price Do Not Route Orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to *the current away best offer (for bids) or the current away best bid (for offers) as non-displayed, and display at a price that is one minimum trading increment inferior to the ABBO, and disseminate the re-priced DNR Order as part of the new BBO.*" The proposed language more explicitly describes the manner in which the Exchange will re-price orders and would mirror rule text in BX Options 3, Section 4(b)(6). The proposed amendment to BX Options 3, Section 8(j)(6)(i) will not result in a System change.

Options 3, Section 11

The Exchange proposes to amend BX Options 3, Section 11 which describes the Block Order Mechanism. First, the Exchange proposes to amend the introductory paragraph to Options 3, Section 11 to add a new sentence which states, "Responses submitted by Participants shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended." This rule text is intended to provide greater clarity regarding responses that are entered into the Exchange's Block Order Mechanism. In 2020, BX adopted the Block Order Mechanism,²⁵ which it copied from Nasdaq ISE, LLC ("ISE") Options 3, Section 11. The proposed rule text within ISE Options 3, Section 11 concerning responses should also have been adopted at that time as the functionalities are identical. The proposed amendment to the introductory paragraph to BX Options 3, Section 11 will not result in a System change.

²⁵ See SR-BX-2020-023.

Second, the Exchange proposes to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments. Specifically, the Exchange proposes to state that with respect to Penny Prices, orders and Responses may be entered into the Block Order Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price under paragraph (a)(2)(A) may also receive executions at penny increments. When BX copied MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.²⁶ The proposed amendment to the introductory paragraph to BX Options 3, Section 11(a)(4) will not result in a System change.

Options 3, Section 13

The Exchange proposes to amend BX Options 3, Section 13 related to its Price Improvement Auction or “PRISM” to include the concept of “internal BBO” within the order entry checks. Specifically, the Exchange proposes to amend Options 3, Section 13(i)(A)-(C) to add the words “internal BBO”²⁷ where the NBBO is described. MRX recently added the same language to its Price Improvement Auction within Options 3, Section 13(b)(1) and (2).²⁸ The proposed changes will conform these order entry check to the concept of re-pricing at an internal BBO as described within Options 3, Sections 4(b)(6), 4(b)(7), 5(c) and 5(d), and will make clear that the PRISM Order measures the

²⁶ Id. MRX adopted this rule text in its Form 1 Application. See Securities Exchange Act Release No. 76998 (January 29, 2016), 81 FR 6066 (February 4, 2016) (File No. 10-221).

²⁷ The internal BBO refers to the Exchange’s non-displayed book.

²⁸ See SR-MRX-2022-16.

difference between the NBBO or the internal BBO to be \$0.01. Today, the Exchange utilizes the internal BBO to determine PRISM eligibility. The proposed amendment to the introductory paragraph of BX Options 3, Section 13(i)(A)-(C) will not result in a System change.

Additionally, the Exchange proposes to make a non-substantive amendment to replace the word “crosses” within BX Options 3, Section 13(ii)(B)(ii) with “improves beyond” to conform the word choice to Nasdaq PHLX LLC Options 3, Section 13(b)(2)(B) which similarly describes the interaction between Phlx’s Reference BBO and a stop price. The proposed amendment to Options 3, Section 13(ii)(B)(ii) will not result in a System change.

Options 3, Section 15

MRX recently amended its Order Price Protection (“OPP”)²⁹ rule to be functionally similar to the OPP functionality on BX.³⁰ MRX’s OPP rule utilized different rule text to explain the OPP functionality. At this time, the Exchange proposes to amend BX Options 3, Section 15(a)(1) to align BX’s rule text to MRX’s rule text within Options 3, Section 15(a)(1)(A). Specifically, the Exchange proposes to remove the references to “day limit, good til cancelled, and immediate or cancel orders” and, instead, simply refer to “limit” orders as that order type accurately captures the scope of the orders subject to OPP. This change would also make the sentence, “OPP applies to all options but does not apply to market orders,” unnecessary. The proposed amendment to Options 3, Section 15(a)(1) will not result in a System change.

²⁹ OPP prevents the execution of Limit Orders at prices outside pre-set parameters.

³⁰ See SR-MRX-2022-18.

Additionally, the Exchange proposes to amend its Acceptable Trade Range (“ATR”) Rule within BX Options 3, Section 15(b)(1).³¹ MRX recently amended its ATR rule to harmonize the rule to BX Options 3, Section 15(b)(1).³² MRX’s ATR rule utilized different rule text to explain the ATR functionality. At this time, the Exchange proposes to amend BX Options 3, Section 15(b)(1) to align BX’s rule text to MRX’s rule text within Options 3, Section 15(b)(1). Specifically, like MRX, BX’s ATR rule applies to orders and quotes. BX’s rule only discusses quotes, but as noted in the title to Options 3, Section 15(b), the ATR risk protection is an order and quote risk protection. To that end, first, the Exchange proposes to add the term “quote” or “quotes” as applicable next to the term “order” or “orders” throughout the BX ATR rule. Second, the Exchange proposes to begin the ATR rule text with “After the Opening Process” as this risk protection does not apply during the Opening Process today. This additional rule text provides greater clarity to the rule. Today, the ATR risk protection is not available during the Opening Process. Third, the Exchange proposes to add the concept of “internal BBO” into the ATR rule. The Exchange proposes to update the reference price definition to provide that upon receipt of a new order or quote, the reference price will now be the better of the NBB or internal best bid for sell orders/quotes and the better of the NBO or internal best offer for buy orders/quotes or the last price at which the order/quote is posted, whichever is higher for a buy order/quote or lower for a sell

³¹ ATR is designed to guard against the System from experiencing dramatic price swings by preventing the immediate execution of quotes and orders beyond the thresholds set by the protection.

³² See SR-MRX-2022-16.

order/quote.³³ The Exchange noted within the MRX rule change that its ATR reference price was functionally identical to BX's ATR reference price.³⁴ Fourth, the Exchange proposes to amend Options 3, Section 15(b)(1)(A) to add the words "after the Posting Period" to explain when a new ATR would be calculated to provide more context to the rule.³⁵ Fifth, similar to MRX Options 3, Section 15(a)(2)(A)(v) the Exchange proposes to add the following rule text within BX Options 3, Section 15(b)(1)(C),

There will be three categories of options for Acceptable Trade Range: (1) Penny Interval Program Options trading in one cent increments for options trading at less than \$3.00 and increments of five cents for options trading at \$3.00 or more, (2) Penny Interval Program Options trading in one-cent increments for all prices, and (3) Non-Penny Interval Program Options.

This is how BX operates today. This rule text makes clear the application of BX Options 3, Section 3 to the ATR rule by explicitly stating the Exchange's ability to set different ATR values by options category. These ATR values are set forth in BX's System Settings document which is posted online.³⁶ The Exchange believes this rule text will add greater clarity to the ATR rule. The proposed amendment to Options 3, Section 15(b)(1) will not result in a System change.

Options 3, Section 18

The Exchange proposes to amend Options 3, Section 18, Detection of Loss of Communication, to correct an error in a prior rule change. In 2019, BX relocated then

³³ The additions of "internal BBO" in this rule text are consistent with the addition of this term elsewhere in the rules.

³⁴ See SR-MRX-2022-16.

³⁵ The Exchange also proposes a technical amendment to add opening parentheses in two places.

³⁶ <https://www.nasdaq.com/docs/BXOptionsSystemSettings>.

Chapter VI, Section(e), Detection of Loss of Communication, to Chapter VI, Section 23.³⁷ BX noted in the rule change that it was not proposing to amend the Detection of Loss Communication rule.³⁸ In relocating the rule, it appears The Nasdaq Options Market, LLC's rule was inadvertently copied over instead of BX's rule. At the time, NOM did offer OTTO. BX has never offered OTTO. The Exchange proposes to reflect the absence of OTTO on BX by deleting rule text related to OTTO within Options 3, Sections 18(a)(1), (a)(3), 18(c), 18(f) and 18(g) and re-lettering the renaming items to reflect those deletions. The proposed amendment to Options 3, Section 18 will not result in a System change.

Options 5, Section 4

Options 5, Section 4 describes the manner in which BX routes orders. The Exchange proposes to amend BX Options 5, Section 4(a) to eliminate the following rule text,

The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice.

When ISE filed to amend its routing rules, it copied BX's Options 5, Section 4 routing rule, except that it did not adopt the aforementioned rule text.³⁹ At this time, the

³⁷ See Securities Exchange Act Release No. 87270 (October 10, 2019), 84 FR 55631 (October 17, 2019) (SR-BX-2019-033) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend BX Rules at Chapter VI, Section 6).

³⁸ Id.

³⁹ See Securities Exchange Act Release No. 94894 (May 18, 2022), 87 FR 30294 (May 12, 2022) (SR-ISE-2022-11) (Notice of Filing and Immediate Effectiveness

Exchange proposes to remove this unnecessary term that is not utilized elsewhere within Options 5, Section 4. Removing this rule text will harmonize BX's Options 5, Section 4 rule with ISE's Options 5, Section 4. The proposed amendment to Options 5, Section 4(a) will not result in a System change.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁴⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴¹ 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.

Option 3, Sections 4 and 5

The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) is consistent with the Act as it will codify existing functionality, thereby promoting transparency in the Exchange's rules and reducing any potential confusion.⁴² This functionality provides Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate, consistent with the purpose of the bulk message functionality to facilitate Market Makers' provision of liquidity. By providing Market Makers with additional

of Proposed Rule Change To Amend Routing Functionality in Connection With a Technology Migration).

⁴⁰ 15 U.S.C. 78f(b).

⁴¹ 15 U.S.C. 78f(b)(5).

⁴² As discussed above, this existing functionality is currently described in the Exchange's publicly available technical specifications. See supra note 3.

control over the quotes they use to provide liquidity to the Exchange, this tool may benefit all investors through additional execution opportunities at potentially improved prices. Today, MRX offers this same functionality within Options 3, Section 4(b)(3). Further, the Exchange does not believe that the offering the bulk message functionality to only Market Makers would permit unfair discrimination. Market Makers play a unique and critical role in the options market by providing liquidity and active markets, and are subject to various quoting obligations which other market participants are not, including obligations to maintain active markets, update quotes in response to changed market conditions, to compete with other Market Makers in its appointed classes, and to provide intra-day quotes in its appointed classes.⁴³ Bulk message functionality provides Market Makers with a means to help them satisfy these obligations. The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(3) will not result in a System change.

The Exchange's proposal to amend Options 3, Section 4(b)(6) to make clear that the actual price remains non-displayed during re-pricing is consistent with the Act and removes impediments to and perfects the mechanism of a free and open market and a national market system because it displays a re-priced order that does not lock or cross an away market. The rule text clearly explains that the best bid or offer will be non-displayed and the re-priced order will be displayed. A similar change is proposed for BX Options 3, Section 5(d). MRX recently amended Options 3, Section 4(b)(6) and Options 3, Section 5(d) to include the same language.⁴⁴ The proposed change aligns BX's rule text to MRX's rule text. The proposed amendment to the Rulebook to add BX Options 3,

⁴³ See Options 2, Sections 4 and 5.

⁴⁴ See SR-MRX-2022-16.

Section 4(b)(6) will not result in a System change.

The Exchange’s proposal to add a new Options 3, Section 4(b)(7) to clarify that, today, BX’s System will automatically execute eligible quotes using the Exchange’s displayed best bid and offer (“BBO”) or the Exchange’s non-displayed order book (“internal BBO”) if the best bid and/or offer on the Exchange has been repriced pursuant to Options 3, Section 5(d) and Options 3, Section 4(b)(6) is consistent with the Act and protects investors and the public interest. This rule text seeks to codify the current System function and make clear that the internal BBO is comprised of both orders and quotes, both of which are considered for price checks. MRX recently amended Options 3, Section 4(b)(7) to include this language.⁴⁵ The proposed change aligns BX’s rule text to MRX’s rule text. The proposed amendment to the Rulebook to add BX Options 3, Section 4(b)(7) will not result in a System change.

Options 3, Section 7

The Exchange’s proposal to amend the title of Options 3, Section 7 from “Types of Orders and Quote Protocols” to “Types of Orders and Order and Quote Protocols” aligns BX’s title to MRX Options 3, Section 7. This change is non-substantive.

The Exchange’s proposal to amend Options 3, Section 7(a)(9) to add the word “Order” after “PRISM” is a non-substantive amendment that aligns the term to its usage within BX Options 3, Section 13.

The Exchange’s proposal to amend the rule text of Options 3, Section 7(a)(8), related to an Opening Sweep, and (b)(1) related to OPG orders, is consistent with the Act and protects investors and the general public because the availability of Market Wide

⁴⁵ Id.

Risk Protection during the Opening Process assists Participants in managing their pre-open risk. The Market Wide Risk Protection is designed to reduce risk associated with System errors or market events that may cause Participants to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. The proposed amendments to BX Options 3, Section 7(a)(8) and (b)(1) will not result in a System change.

The Exchange's proposal to amend the rule text of Options 3, Section 7(b)(2)(C) to add Block Orders and Customer Cross Orders to Options 3, Section 7(b)(2)(C) and replace the term "Price Improvement Auction ("PRISM") Mechanism" with "PRISM Orders" is consistent with the Act. In 2020, BX adopted Block Orders and Customer Cross Orders in a technology migration⁴⁶ and should have added those order types to this list. At this time, the Exchange proposes to update this rule to include these order types. Further, the Exchange proposes to state that "By their terms, these orders will be: (1) executed either on entry or after the exposure period, or (2) cancelled." The additional language is being added because Customer Cross Orders may be executed upon entry provided all the terms are satisfied. This proposed change aligns to MRX Supplementary Material .02(d)(3) of Options 3, Section 7. The proposed amendments to BX Options 3, Section 7(b)(2)(C) will not result in a System change.

The Exchange's proposal amends the description of SQF within Options 3, Section 7(e)(1)(B) is consistent with the Act as this rule text is currently noted within Options 3, Section 7(b)(2) above. The addition of this language into the description of SQF provides a more complete description of this protocol. The addition of this

⁴⁶ See supra note 16.

information also aligns the level of information with that offered on MRX for SQF within Supplementary Material .03(c) to Options 3, Section 7. The proposed amendment to BX Options 3, Section 7(e)(1)(B) will not result in a System change.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price, is consistent with the Act and protects investors and the public interest. BX began rounding up when the Exchange modified certain functionality during a technology migration.⁴⁷ Various parts of the BX rules were amended to reflect that BX was rounding up.⁴⁸ The Exchange inadvertently did not amend Options 3, Section 8(h)(1) to reflect that BX was rounding up. At this time, the Exchange proposes to amend the current language to reflect that it no longer rounds in the direction of the previous trading day's closing price. Today, the System simply rounds up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. This proposed change is intended to bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. This change is identical to a change recently made in MRX Options 3, Section 8(g).⁴⁹ The proposed amendment to BX Options 3, Section 8(h)(1) will not result in a System change.

⁴⁷ See SR-BX-2020-017.

⁴⁸ Id.

⁴⁹ See SR-MRX-2022-18.

The Exchange's proposal to amend Options 3, Section 8(j)(3), which currently describes the determination of OQR boundaries in certain scenarios is consistent with the Act. Replacing the phrase "are marketable against the ABBO" with "cross the ABBO" serves to precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, rather this amendment clarifies the applicability of the rule text. This change is identical to a change recently made on MRX at Options 3, Section 8(i)(3).⁵⁰ The proposed amendment to BX Options 3, Section 8(j)(3) will not result in a System change.

The proposal to amend Options 3, Section 8(k)(1)(A) by removing the phrase "or (ii) internal quotes are crossing each other" remove impediments to and perfect the mechanism of a free and open market and a national market system by removing a scenario from this section of the rule that is covered elsewhere. Options 3, Section 8(d)(3) provides that the Opening Process will stop and an option series will not open, if the ABBO becomes crossed. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k) below. Further, where the internal quotes are crossed, Options 8, Section 8(i) rules apply. At the time that Options 3, Section 8(k)(1)(A) is applicable, the BX System has sent an Imbalance Message and the System would disseminate an Imbalance Message showing "0" volume and "\$0.00" price if no executions are possible, but routable interest is priced at or through the ABBO. Internal quotes would not be crossing each other at this point in the Opening Process. The proposed amendment to BX Options 3, Section 8(k)(1)(A) will not result in a System change.

⁵⁰

Id.

The Exchange's proposal to amend Options 3, Section 8(k)(4) to align BX's rule text with that of MRX Options 3, Section 8(j)(6)(i) is consistent with the Act because it explicitly describes the manner in which the Exchange will re-price orders and mirrors rule text similar to the language within Options 3, Section 4(b)(6). The proposed amendment to BX Options 3, Section 8(j)(6)(i) will not result in a System change.

Options 3, Section 11

The Exchange's proposal to amend the introductory paragraph to Options 3, Section 11 to provide greater clarity regarding responses that are entered into the Exchange's Block Order Mechanism is consistent with the Act and protects investors and the public interest. In 2020, BX adopted the Block Order Mechanism,⁵¹ which it copied from ISE Options 3, Section 11. This rule text concerning responses should also have been adopted at that time as the functionality on BX is identical to that on ISE. The proposed amendment to the introductory paragraph to BX Options 3, Section 11 will not result in a System change

The Exchange's proposal to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments is consistent with the Act as it will make clear the manner in which minimum increments apply within this mechanism. This language codifies current System behavior. When BX copied the MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.⁵² The proposed amendment to the introductory paragraph to BX Options 3, Section 11(a)(4) will not result in a System change.

⁵¹ See SR-BX-2020-023.

⁵² Id.

Options 3, Section 13

The Exchange's proposal to amend Options 3, Section 13 related to PRISM to include the concept of "internal BBO" within the order entry checks is consistent with the Act and protects investors and the public interest. The proposed changes will conform these order entry check to the concept of re-pricing at an internal BBO as described within BX Options 3, Sections 4(b)(6), 4(b)(7), 5(c) and 5(d), and will make clear that the PRISM Order measures the difference between the NBBO or the internal BBO to be \$0.01. MRX recently added the same language to its Price Improvement Auction within Options 3, Section 13.⁵³ The proposed amendment to the introductory paragraph of BX Options 3, Section 13(i)(A)-(C) will not result in a System change.

The Exchange's proposal to replace the word "crosses" within Options 3, Section 13(ii)(B)(ii) with "improves beyond" conforms the word choice to Nasdaq PHLX LLC Options 3, Section 13(b)(2)(B) which similarly describes the interaction between Phlx's Reference BBO and a stop price. The proposed amendment to Options 3, Section 13(ii)(B)(ii) will not result in a System change.

Options 3, Section 15

The Exchange's proposal to amend BX Options 3, Section 15(a)(1) to align BX's OPP rule text to MRX's OPP rule text within Options 3, Section 15(a)(1)(A) is consistent with the Act⁵⁴ because removing the references to "day limit, good til cancelled, and immediate or cancel orders and, instead, referring to "limit" orders accurately captures the scope of the orders subject to OPP. This change would also make unnecessary the

⁵³ See SR-MRX-2022-16.

⁵⁴ MRX recently amended its Order Price Protection ("OPP") rule to be functionally similar to the OPP functionality on BX. See SR-MRX-2022-18.

remainder of the rule text stating it does not apply to market orders. The proposed amendment to Options 3, Section 15(a)(1) will not result in a System change.

The Exchange's proposal to amend the ATR Rule within Options 3, Section 15(b)(1) is consistent with the Act. MRX recently amended its ATR rule to harmonize the rule with BX Options 3, Section 15(b)(1).⁵⁵ MRX's ATR rule utilized different rule text to explain the ATR functionality. Amending BX Options 3, Section 15(b)(1) to align BX's rule text to MRX's rule text within Options 3, Section 15(b)(1) is consistent with the Act because like MRX, BX's ATR rule applies to orders and quotes. BX's rule only discusses quotes, but as noted in the title to Options 3, Section 15(b), the ATR risk protection is an order and quote risk protection. The Exchange's proposal to begin the rule text with "After the Opening Process" is consistent with the Act as this risk protection does not apply during the Opening Process today. This additional rule text provides greater clarity to the rule. The Exchange's proposal to add the concept of "internal BBO" into the ATR rule is consistent with the Act and protects investors and the public interest by specifying that the reference price definition is the better of the NBB or internal best bid for sell orders/quotes and the better of the NBO or internal best offer for buy orders/quotes or the last price at which the order/quote is posted, whichever is higher for a buy order/quote or lower for a sell order/quote. The Exchange noted within the MRX rule change that the proposed additional functionality is identical to BX's ATR reference price.⁵⁶ The Exchange's proposal to amend Options 3, Section 15(b)(1)(A) to add the words "after the Posting Period" to explain when a new ATR

⁵⁵ See SR-MRX-2022-16.

⁵⁶ Id.

would be calculated provides more context to the rule. Adding rule text within BX Options 3, Section 15(b)(1)(C) to make clear the Exchange's ability to set different ATR values by options category is consistent with the Act because the ATR risk protection limits the range of prices at which an order and quote trades and would take into account the minimum increment. The ability for the Exchange to set the ATR based on the increment allows the Exchange to set appropriate limits. The Exchange believes this rule text will add greater clarity to the ATR rule. The proposed amendment to Options 3, Section 15(b)(1) will not result in a System change.

Options 3, Section 18

Amending Options 3, Section 18, Detection of Loss of Communication, to delete rule text related to OTTO within Options 3, Sections 18(a)(1), (a)(3), 18(c), 18(f) and 18(g) and re-lettering the renaming items to reflect those deletions is consistent with the Act because it corrects a prior error when this rule was relocated within the Rulebook by placing the replica of the original rule from SR-BX-2019-033 into its Rulebook. The proposed amendment to Options 3, Section 18 will not result in a System change.

Options 5, Section 4

Eliminating an unnecessary term in Options 5, Section 4(a) that is not utilized elsewhere within Options 5, Section 4 which is unnecessary is consistent with the Act as it will remove confusion. The proposed amendment to Options 5, Section 4(a) will not result in a System change.

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.

Option 3, Sections 4 and 5

The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) does not impose an undue burden on intra-market competition. While the Exchange currently offers this functionality to Market Makers only, bulk messaging is intended to provide Market Makers with an additional tool to meet their various quoting obligations in a manner they deem appropriate. As such, the Exchange believes that this functionality may facilitate Market Makers' provision of liquidity, thereby benefiting all market participants through additional execution opportunities at potentially improved prices. Furthermore, while the Exchange will offer the proposed Post-Only Quote Configuration to Market Makers only, the proposed risk protection will enhance the ability of Market Makers to add liquidity and avoid removing liquidity from the Exchange's order book in the manner described above. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. The Exchange believes that its proposal to memorialize its bulk message functionality within Options 3, Section 4(b)(3) does not impose an undue burden on inter-market competition as other options exchanges may adopt this functionality.

The Exchange's proposal to amend BX's rules at Options 3, Section 4(b)(6) and Options 3, Section 4(b)(7) do not impose an undue burden on competition because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX's rule text to MRX's rule text.

Options 3, Section 7

The Exchange's proposal to amend the rule text of BX Options 3, Section 7(a)(8),

related to an Opening Sweep, and (b)(1), related to OPG orders, does not impose an undue burden competition because the availability of Market Wide Risk Protection during the Opening Process assists all Participants in managing their pre-open risk.

The Exchange's proposal to amend the rule text at BX Options 3, Section 7(b)(2)(C) to add Block Orders and Customer Cross Orders to Options 3, Section 7(b)(2)(C) and replace the term "Price Improvement Auction ("PRISM") Mechanism" with "PRISM Orders" does not impose an undue burden on competition as these order types are well established and the manner in which they trade is specified in each of the particular auction rules. This proposed change aligns to MRX Supplementary Material .02(d)(3) of Options 3, Section 7.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8(h)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price, does not impose an undue burden on competition. BX began uniformly rounding up when the Exchange modified certain functionality during a technology migration, this amendment makes clear the System functionality.

The proposal to amend Options 3, Section 8(k)(1)(A) by removing the phrase "or (ii) internal quotes are crossing each other" does not impose an undue burden on intra-market competition because internal quotes would not be crossing each other at this point in the Opening Process. All Participants are subject to the Opening Process rule.

Options 3, Section 11

The Exchange's proposal to amend the introductory paragraph to Options 3, Section 11 does not impose an undue burden on competition, rather it provides greater

clarity regarding responses that are entered into the Exchange's Block Order Mechanism. In 2020, BX adopted the Block Order Mechanism,⁵⁷ which it copied from ISE Options 3, Section 11. This rule text concerning responses should also have been adopted at that time as the functionality on BX is identical to that on ISE.

The Exchange's proposal to adopt new rule text within BX Options 3, Section 11(a)(4) related to the Block Order Mechanism with respect to minimum increments does not impose an undue burden on competition as it will make clear the manner in which minimum increments apply within this mechanism. When BX copied the MRX Options 3, Section 11 rule for Block Orders, this language should have been adopted as well.⁵⁸

Options 3, Section 13

The Exchange's proposal to amend Options 3, Section 13 related to its Price Improvement Auction to include the concept of "internal BBO" within the order entry checks does not impose an undue burden on competition because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX's rule text to MRX's rule text.

Options 3, Section 15

The Exchange's proposal to amend BX Options 3, Section 15(a)(1) to align BX's OPP rule text to MRX's OPP rule text within Options 3, Section 15(a)(1)(A) does not impose an undue burden on competition because removing the references to "day limit, good til cancelled, and immediate or cancel orders and, instead, referring to "limit" orders

⁵⁷ See SR-BX-2020-023.

⁵⁸ Id.

accurately captures the scope of the orders subject to OPP. This change would also make unnecessary the remainder of the rule text stating it does not apply to market orders.

The Exchange's proposal to amend the ATR Rule within Options 3, Section 15(b)(1) does not impose an undue burden on competition. Like MRX, BX's ATR rule applies to orders and quotes as noted in the title to Options 3, Section 15(b), the ATR risk protection is an order and quote risk protection. Additionally, ATR does not apply during the Opening Process today. Further, adding the concept of "internal BBO" into the ATR rule because all options markets must not trade-through other orders on their markets as well as away markets. The proposed change aligns BX's rule text to MRX's rule text.

Adding rule text within BX Options 3, Section 15(b)(1)(C) to make clear the Exchange's ability to set different ATR values by options category does not impose an undue burden on competition because the ability for the Exchange to set the ATR based on the increment allows the Exchange to set appropriate limits. The Exchange believes this rule text will add greater clarity to the ATR rule.

Options 3, Section 18

Amending Options 3, Section 18, Detection of Loss of Communication, to remove references to OTTO does not impose an undue burden on competition because it corrects a prior error when this rule was relocated within the Rulebook by placing the replica of the original rule from SR-BX-2019-033 into its Rulebook.

Options 5, Section 4

Eliminating an unnecessary reference within amend Options 5, Section 4(a) does not impose an undue burden on competition because the term is not utilized elsewhere within Options 5, Section 4.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act⁵⁹ and subparagraph (f)(6) of Rule 19b-4 thereunder.⁶⁰

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.

⁵⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

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

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BX-2023-013 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-2023-013. 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-2023-013 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.⁶¹

J. Matthew DeLesDernier
Assistant Secretary

⁶¹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq BX, Inc. Rules

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Options Rules

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Options 3 Options Trading Rules

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Section 4. Entry and Display of Quotes

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

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

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

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

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

(i) A “bulk message” means a single electronic message submitted to the Exchange which may contain a specified number of quotations as designated by the Exchange. The bulk message, submitted via SQF, may enter, modify, or cancel quotes. Bulk messages are handled by the System in the same manner as it handles a single quote message.

* * * * *

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

(7) The System automatically executes eligible quotes using the Exchange's displayed best bid and offer ("BBO") or the Exchange's non-displayed order book ("internal BBO") if the best bid and/or offer on the Exchange has been repriced pursuant to Options 3, Section 5(d) below and subsection (6) above.

([7]8) Quotes submitted to the System are subject to the following: minimum increments provided for in Options 3, Section 3 and risk protections provided for in Options 3, Section 15.

* * * * *

Section 5. Entry and Display of Orders

* * * * *

(c) The System automatically executes eligible orders using the Exchange's displayed best bid and offer ("BBO") or the Exchange's non-displayed order book ("internal BBO") if the best bid and/or offer on the Exchange has been repriced pursuant to subsection (d) below and Options 3, Section 4(b)(6) above.

(d) Trade-Through Compliance and Locked or Crossed Markets. An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

* * * * *

Section 7. Types of Orders and Order 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:

* * * * *

(8) "Opening Sweep" is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated

Quotation Adjustments and Market Wide Risk Protection. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8 and will be cancelled upon the open if not executed.

(9) "PRISM Order" is as described in Options 3, Section 13.

* * * * *

(b) The term "Time in Force" or "TIF" shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) An Opening Only order ("OPG") is entered with a TIF of "OPG". This order can only be executed in the Opening Process pursuant to Options 3, Section 8. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation and Market Wide Risk Protection. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route.

(2) "Immediate-or-Cancel" or "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

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

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

(C) Block Orders, Customer Cross Orders, and PRISM Orders[entered into the Price Improvement Auction ("PRISM") Mechanism] are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

* * * * *

(e) Entry and Display of Orders and Quotes. Participants may enter orders and quotes into the System as specified below.

(1) The Exchange offers Participants the following protocols for entering orders and quotes respectively:

* * * * *

(B) "**Specialized Quote Feed**" or "**SQF**" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying instruments); (2) system event

messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, Market Order Spread Protection, or Size Limitation Protection in Options 3, Section 15(a)(1), (a)(2), and (b)(2) respectively.

Section 8. Options Opening Process

* * * * *

(h) **Potential Opening Price.** The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria are met. To calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps) for the option series and identify the price at which the maximum number of contracts can trade (“maximum quantity criterion”). In addition, paragraphs (i)(1)(C) and (j)(5) - (7) below contain additional provisions related to the Potential Opening Price.

(1) More Than One Potential Opening Price. When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded up to the minimum price variation [that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price.]

* * * * *

(j) The System will calculate an Opening Quote Range (“OQR”) for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above. OQR is constrained by the least aggressive limit prices within the broader limits of OQR. The least aggressive buy order or Valid Width Quote bid and least aggressive sell order or Valid Width Quote offer within the OQR will further bound the OQR.

* * * * *

(3) If one or more away markets are disseminating a BBO that is not crossed (the Opening Process will stop and an options series will not open if the ABBO becomes crossed pursuant to (d)(3)) and there are Valid Width Quotes on the Exchange that cross each other or [are marketable against] cross the ABBO:

(A) the minimum value for the OQR will be the highest away bid.

(B) the maximum value for the OQR will be the lowest away offer.

* * * * *

(k) **Price Discovery Mechanism.** If the Exchange has not opened pursuant to paragraphs (f) or (i) above, after the OQR calculation in paragraph (j), the Exchange will conduct the following Price Discovery Mechanism.

(1) First, the System will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance, size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds. The Imbalance Timer will be for the same number of seconds for all options traded on the Exchange. Each Imbalance Message is subject to an Imbalance Timer.

(A) An Imbalance Message will be disseminated showing a "0" volume and a \$0.00 price if: (i) no executions are possible, but routable interest is priced at or through the ABBO; or (ii) internal quotes are crossing each other]. Where the Potential Opening Price is through the ABBO, an imbalance message will display the side of interest priced through the ABBO.

* * * * *

(4) Pursuant to Options 3, Section 8(k)(3)(F), the System will re-price Do Not Route Orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to the current away best offer (for bids) or the current away best bid (for offers) as non-displayed, and display at a price that is one minimum trading increment inferior to the ABBO, and disseminate the re-priced DNR Order as part of the new BBO.

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Section 11. Auction Mechanisms

For purposes of this Rule, a "broadcast message" means an electronic message that is sent by the Exchange to all Participants, and a "Response" means an electronic message that is sent by Participants in response to a broadcast message. Responses submitted by Participants shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. Also for purposes of this Rule, the time given to Participants to enter Responses for any of the below auction mechanisms shall be designated by the Exchange via an Options Trader Alert, but no less than 100 milliseconds and no more than 1 second.

(a) **Block Order Mechanism.** The Block Order Mechanism is a process by which a Participant can obtain liquidity for the execution of block-size orders ("Block Order"). The Block Order Mechanism is for single leg transactions only. Block-size orders are orders for fifty (50) contracts or more.

* * * * *

(4) Penny Prices. Orders and Responses may be entered into the Block Order Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price under paragraph (a)(2)(A) may also receive executions at penny increments.

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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) If the PRISM Order is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") or the internal BBO is \$0.01, the Initiating Participant must stop the entire PRISM Order at \$0.01 better than the NBBO or the internal BBO on the opposite side of the market from the PRISM Order, and better than any limit order or quote on the limit order book on the same side of the market as the PRISM Order.

(B) If the PRISM Order is for the account of a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO or the internal BBO is greater than \$0.01, the Initiating Participant must stop the entire PRISM Order at a price that is equal to or better than the internal BBO and NBBO on the opposite side of the market from the PRISM Order, provided that such price must be \$0.01 better than any limit order or quote on the limit order book on the same side of the market as the PRISM Order.

(C) If the PRISM Order is for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO or the internal BBO is greater than \$0.01, the Initiating Participant must stop the entire PRISM Order at a price that is the better of: (i) the BX BBO price improved by at least \$0.01 on the same side of the market as the PRISM

Order, or (ii) the PRISM Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the internal BBO and NBBO.

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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:

* * * * *

(B) Conclusion of Auction. The PRISM Auction shall conclude at the earlier to occur of (1) through (3) below, with the PRISM Order executing pursuant to paragraph (C)(1) or (C)(2) below if it concludes pursuant to (2) or (3) of this paragraph.

(1) The end of the Auction period;

(2) For a PRISM Auction any time the BX BBO improves beyond [crosses] the PRISM Order stop price on the same side of the market as the PRISM Order;

(3) Any time there is a trading halt on the Exchange in the affected series.

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Section 15. Risk Protections

(a) The following are order risk protections on BX:

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

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(b) The following are order and quote risk protections on BX:

(1) **Acceptable Trade Range**. After the Opening Process, [T]the system will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote will be allowed to execute. The Acceptable Trade Range is calculated by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders/quotes and the reference price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the reference price is the better of the NBB or internal best bid for sell orders/quotes and the better of the NBO or internal best offer for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote. The Acceptable Trade Range will not be available for All-or-None Orders or Minimum Quantity Orders.

(A) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order/quote or an updated NBB for buy orders/quotes or the NBO for sell orders/quotes (whichever is higher for a buy order/quote or lower for a sell order/quote) then becomes the reference price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted after the Posting Period, a new Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Threshold Price. This process will repeat until either (i) the order/quote is executed, cancelled, or posted at its limit price or (ii) the order/quote has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

(B) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order/quote triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

(C) There will be three categories of options for Acceptable Trade Range: (1) Penny Interval Program Options trading in one cent increments for options trading at less than \$3.00 and increments of five cents for options trading at \$3.00 or more, (2) Penny Interval Program Options trading in one-cent increments for all prices, and (3) Non-Penny Interval Program Options.

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Section 18. Detection of Loss of Communication

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Options 5 Order Protection and Locked and Crossed Markets

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Section 4. Order Routing

(a) BX offers two routing strategies, FIND and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this Rule the System will route FIND and SRCH Orders with no other contingencies. Immediate or Cancel ("IOC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the FIND or SRCH Orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. For purposes of this Rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this Rule, "exposure" or "exposing" an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. Exposure notifications will be sent to participants in accordance with the routing procedures described in Options 5, Section 4(a)(iii) below except if an incoming order is joining an already established BBO price when the ABBO is locked or crossed with the BBO, in which case such order will join the established BBO price and no exposure notification will be sent. An order exposure will be sent if the order size is modified. For purposes of this Rule BX's opening process is governed by Options 3, Section 8 and includes an opening after a trading halt ("Opening Process"). Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. [The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice.] The order routing process shall be available to Participants from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Participants can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules.

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