Required fields are shown with yellow backgrounds and asterisks.

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

File No. * SR 2023 - * 02

Amendment No. (req. for Amendments *)

Filing by   Nasdaq GEMX, LLC

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

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
✓	☐	☐	☐	✓	☐

Rule

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

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

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

Section 806(e)(1) *   ☐

Section 806(e)(2) *   ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 3C(b)(2) *   ☐

Exhibit 2 Sent As Paper Document   ☐

Exhibit 3 Sent As Paper Document   ☐

Description

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

Amend rules in connection with the technology migration to enhanced Nasdaq functionality

Contact Information

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

First Name * Sun   Last Name * Kim

Title * Associate General Counsel

E-mail * Sun.kim@nasdaq.com

Telephone * (646) 420-7816   Fax

Signature

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

Date   01/23/2023   (Title *)

By   John Zecca   EVP and Chief Legal Officer
(Name *)

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

Date: 2023.01.23
13:46:21 -05'00'

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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SR-GEMX-2023-02 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 *

Add	Remove	View

SR-GEMX-2023-02 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

Add	Remove	View

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

Add	Remove	View

SR-GEMX-2023-02 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

Add	Remove	View

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

1.   Text of the Proposed Rule Change

(a)   Nasdaq GEMX, LLC ("GEMX" 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 its rules in connection with a technology migration to enhanced

Nasdaq, Inc. ("Nasdaq") functionality.

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:

<div style="text-align:center">

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

</div>

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

[2]   17 CFR 240.19b-4.

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

a.   Purpose

In connection with a technology migration to enhanced Nasdaq functionality that will result in higher performance, scalability, and more robust architecture, the Exchange proposes to amend its rules to adopt certain trading functionality currently utilized at Nasdaq affiliate options exchanges. As further discussed below, the Exchange is proposing to adopt such functionality substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

The Exchange intends to begin implementation of the proposed rule change by Q3 2023. The Exchange would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

Routing Changes

In connection with the technology migration to enhanced Nasdaq functionality, the Exchange recently amended Options 5 (Order Protections and Locked and Crossed Markets) in order to harmonize its routing functionality to that of Nasdaq BX, Inc.

("BX").[3] As part of this harmonization, the Routing Filing included proposals to adopt or

harmonize routing strategies on the Exchange that are substantially identical to BX, (i.e.,

DNR, FIND, and SRCH), and eliminate existing Exchange routing functionality that BX

does not offer today (e.g., flash functionality,[4] and Sweep Orders[5]).

In connection with the proposed changes in the Routing Filing, the Exchange now

proposes to make corresponding changes to the following Rules within Options 3 to

account for the proposed amendments to Options 5: Section 5 (Entry and Display of

Orders), Section 7 (Types of Orders and Orders and Quote Protocols), Section 9 (Trading

Halts), and Section 10 (Priority of Quotes and Orders).[6] First, the Exchange proposes to

remove the following rule text in Options 3, Section 5(b)(1) relating to flash functionality

and Non-Customer order handling in lieu of using flash functionality: "Orders that are

not automatically executed will be handled as provided in Supplementary Material .02 to

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[3]   Specifically, the Exchange's affiliate, Nasdaq ISE, LLC ("ISE") amended ISE
        Options 5, which GEMX Options 5 incorporates by reference. See Securities
        Exchange Act Release No. 94897 (May 12, 2022), 87 FR 30294 (May 18, 2022)
        (SR-ISE-2022-11) ("Routing Filing"). As a result, the amendments to ISE
        Options 5 in the Routing Filing also amended GEMX Options 5.

[4]   Today, the Exchange's flash functionality permits certain eligible incoming orders
        to first be exposed at the National Best Bid or Offer ("NBBO") to all Members
        for execution at the NBBO price before that order is routed to another market for
        execution. See Supplementary Material .02 to Options 5, Section 2.

[5]   A Sweep Order is a limit order that is to be executed in whole or in part on the
        Exchange and the portion not so executed shall be routed pursuant to
        Supplementary Material .05 to Options 5, Section 2 to Eligible Exchange(s) for
        immediate execution as soon as the order is received by the Eligible Exchange(s).
        Any portion not immediately executed by the Eligible Exchange(s) shall be
        canceled. If a Sweep Order is not marketable when it is submitted to the
        Exchange, it shall be canceled. See Options 3, Section 7(s).

[6]   The Exchange notes that ISE proposed substantially similar amendments in ISE
        Options 3 as part of the Routing Filing.

Options 5, Section 2; provided that Members may specify that a Non-Customer order

should instead be accepted and immediately cancelled automatically by the System[7] at

the time of receipt." With the removal of flash functionality in the Routing Filing, the

foregoing rule text would no longer be necessary. In connection with this change, the

Exchange will renumber current Section 5(b)(2) as (b)(1). Second, the Exchange

proposes to delete similar flash-related language in Options 3, Section 5(d) that currently

provides: "Orders that are not automatically executed will be handled as provided in

Supplementary Material .02 to Options 5, Section 2; provided that Members may specify

that a Non-Customer order should instead be cancelled automatically by the System at

the time of receipt."

Third, the Exchange proposes to delete references to do-not-route orders[8] and

Sweep Orders in Options 3, Section 7(m) and (s), respectively, and reserve those Rules.

As discussed in the Routing Filing, the Exchange is eliminating these order types (and for

do-not-route orders, eliminating as an order type and describing these instead as a routing

strategy) in order to align with BX's current offerings. Fourth, the Exchange proposes to

add a new Supplementary Material .04 to Options 3, Section 7, which would set forth the

new routing strategies that are substantially identical to BX's current routing strategies,

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[7]   The term "System" means the electronic system operated by the Exchange that
        receives and disseminates quotes, executes orders and reports transactions. See
        Options 1, Section (a)(49).

[8]   A do-not-route order is a market or limit order that is to be executed in whole or
        in part on the Exchange only. Due to prices available on another options
        exchange (as provided in Options 5 (Order Protection; Locked and Crossed
        Markets)), any balance of a do-not-route order that cannot be executed upon
        entry, or placed on the Exchange's limit order book, will be automatically
        cancelled. See Options 3, Section 7(m).

as further discussed in the Routing Filing. Specifically, new Supplementary Material .04

would provide: "Routing Strategies. Orders may be entered on the Exchange with a

routing strategy of FIND or SRCH, or, in the alternative, an order may be marked Do-

Not-Route ("DNR") as provided in Options 5, Section 4 through FIX[9] or Precise[10] only."

The addition of this sentence will make clear which routing strategies may be utilized

when submitting an order type and will provide a citation to the routing rule in Options 5,

Section 4 for ease of reference.[11]

Fifth, the Exchange proposes to amend subparagraph (d)(2) of Options 3, Section

9. Among other things, this Rule describes the processing of Market Orders exposed at

the NBBO pursuant to Supplementary Material .02 to Options 5, Section 2 after a trading

halt. This rule text is no longer necessary with the elimination of flash functionality in

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[9]   "Financial Information eXchange" or "FIX" is an interface that allows Members
        and their Sponsored Customers to connect, send, and receive messages related to
        orders and auction orders to the Exchange. Features include the following: (1)
        execution messages; (2) order messages; (3) risk protection triggers and cancel
        notifications; and (4) post trade allocation messages. See Supplementary Material
        .03(a) to Options 3, Section 7.

[10]   "Nasdaq Precise" or "Precise" is a front-end interface that allows Electronic
        Access Members and their Sponsored Customers to send orders to the Exchange
        and perform other related functions. Features include the following: (1) order and
        execution management: enter, modify, and cancel orders on the Exchange, and
        manage executions (e.g., parent/child orders, inactive orders, and post-trade
        allocations); (2) market data: access to real-time market data (e.g., NBBO and
        Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill
        switch); and (4) book keeping and reporting: comprehensive audit trail of orders
        and trades (e.g., order history and done away trade reports. See Supplementary
        Material .03(d) to Options 3, Section 7. The Exchange notes that FIX and Precise
        are the only order entry protocols on the Exchange that permit routing today.

[11]   Routing options may be combined with all available order types and times-in-
        force ("TIFs"), with the exception of orders and TIFs whose terms are
        inconsistent with the terms of a particular routing option.

the Routing Filing. Sixth, the Exchange proposes to amend Options 3, Section 10(a)(ii)[12]

to remove a reference to flash functionality that will no longer exist with the proposed

changes in the Routing Filing. The Exchange also proposes to renumber Options 3,

Section 10(a)(i) and (ii) as Options 3, Section 10(a)(1) and (2) to conform the numbering

in that Rule.

Seventh, the Exchange proposes to amend its Pricing Schedule at Options 7 to

remove all references to pricing related to the flash functionality. In particular, the

Exchange proposes to delete the definition of Flash Order in Options 7, Section 1.

Bulk Message

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 does not permit bulk

messaging for orders today. The Exchange has historically provided Market Makers with

information regarding bulk messaging in its publicly available technical specifications.[13]

To promote greater transparency, the Exchange is seeking to codify this functionality in

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[12]   Options 3, Section 10(a)(ii) currently provides that this rule does not apply to the
        Block Order Mechanism described within Options 3, Section 11(a), the
        Facilitation Mechanism described within Options 3, Section 11(b), the Solicited
        Order Mechanism described within Options 3, Section 11(d), the Price
        Improvement Mechanism described within Options 3, Section 13, orders
        described within Options 3, Section 12 *or an exposure period as provided in
        Options 5, Section 2 at Supplementary Material .02*, unless Options 3, Section 10
        is specifically referenced within GEMX Rules applicable to the aforementioned
        functionality.

[13]   See https://www.nasdaq.com/docs/2022/05/17/SQF_8.2b.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 Member can send such quote block messages.

its Rulebook. Specifically, the Exchange proposes to amend 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.[14] The bulk message, submitted via

SQF,[15] may enter, modify, or cancel quotes. Bulk messages are handled by the System in

the same manner as it handles a single quote message.

The Exchange notes that other exchanges like Cboe Options Exchange ("Cboe")

currently offer similar bulk messaging functionality that allow their market participants to

submit block quantity quotes in a single electronic message.[16]

Order Types

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[14]   See 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 Members.

[15]   "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 Supplementary
         Material .03(c) to Options 3, Section 7.

[16]   See definition of "bulk message" in Cboe Rule 1.1. Unlike Cboe, which also
         allows bulk messaging for orders, the Exchange's bulk message functionality only
         applies to quotes as discussed above.

The Exchange proposes to make several enhancements to certain order types in

Options 3, Section 7 in connection with the technology migration to Nasdaq enhanced

functionality. Specifically in connection with the migration, the Exchange proposes to:

(1) introduce an intra-day cancel timer feature for Market Orders,[17] (2) eliminate non-

Immediate-or-Cancel ("IOC")[18] Intermarket Sweep Orders ("ISOs"),[19] (3) introduce BX-

like re-pricing to Add Liquidity Orders ("ALOs"),[20] and (4) allow Market Orders to be

entered as Opening Only ("OPG")[21] orders (currently only allowed for Limit Orders).[22]

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[17]   A market order is an order to buy or sell a stated number of options contracts that
        is to be executed at the best price obtainable when the order reaches the
        Exchange. See Options 3, Section 7(a).

[18]   An IOC order must be executed in whole or in part upon receipt. Any portion not
        so executed is to be treated as cancelled. See Options 3, Section 7(b)(3). As
        discussed later in this filing, the Exchange will relocate the IOC rule into
        Supplementary Material .02 to Options 3, Section 7.

[19]   An ISO is a limit order that meets the requirements of Options 5, Section 1(h).
        See Options 3, Section 7(b)(5).

[20]   An Add Liquidity Order is a limit order that is to be executed in whole or in part
        on the Exchange (i) only after being displayed on the Exchange's limit order
        book; and (ii) without routing any portion of the order to another market center.
        Members may specify whether an Add Liquidity Order shall be cancelled or re-
        priced to the minimum price variation above the national best bid price (for sell
        orders) or below the national best offer price (for buy orders) if, at the time of
        entry, the order (i) is executable on the Exchange; or (ii) the order is not
        executable on the Exchange, but would lock or cross the national best bid or offer.
        If at the time of entry, an Add Liquidity Order would lock or cross one or more
        non-displayed orders on the Exchange, the Add Liquidity Order shall be cancelled
        or re-priced to the minimum price variation above the best non-displayed bid
        price (for sell orders) or below the best non-displayed offer price (for buy orders).
        An Add Liquidity Order will only be re-priced once and will be executed at the
        re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit
        order book in accordance with Options 3, Section 10. See Options 3, Section
        7(n).

[21]   An OPG order is a Limit Order that can be entered for the opening rotation only.
        See Options 3, Section 7(o). As discussed later in this filing, the Exchange will

As discussed below, the proposed enhancements are intended to align with existing BX functionality. The Exchange also proposes to add more granularity on how certain order types currently operate on the Exchange today, codify existing order type functionality, and to relocate related rule text within Options 3, Section 7 for better readability. Except with respect to the order type enhancements specified above, none of the proposed order type rule changes will amend current functionality. Rather, these changes are designed to bring greater transparency as to the applicability of certain order types currently available on the Exchange, and to provide greater consistency between the rules of the Exchange and its affiliates.

Market Orders

The Exchange proposes to amend the definition of Market Orders in Options 3, Section 7(a) to introduce a cancel timer feature, which will allow Members to designate Market Orders that do not execute after a certain period of time to be cancelled back to the Member. Specifically, the Exchange proposes to add that Members can designate their Market Orders not executed after a pre-established period of time, as established by the Exchange,[23] will be cancelled back to the Member, once an options series has opened for trading. BX currently has an identical timer feature for BX Market Orders.[24] Similar

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relocate the OPG rule into Supplementary Material .02 to Options 3, Section 7.

[22]   A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. See Options 3, Section 7(b).

[23]   The Exchange will initially set the pre-established period of time at 4 seconds, identical to BX. This specification will be set out in the GEMX System settings document on a publicly available website. The Exchange would issue an Options Trader Alert notifying all Members if it determined to amend that timeframe.

[24]   See BX Options 3, Section 7(a)(5).

to BX, the proposed timer would be available once the intra-day trading session begins

for an options series, as the Exchange already has a separate opening delay timer that

provides protection to the market during the Opening Process. In particular, the

Exchange would cancel or route orders (consistent with the Member's instructions) if an

options series has not opened before the conclusion of the opening delay timer.[25] As

such, the Exchange is proposing that the pre-established period of time for the proposed

timer feature would commence once the intra-day trading session begins for that options

series. In other words, while the opening process is on-going, and the intra-day trading

session has not commenced, the pre-established period of time for the proposed timer

feature would not commence. Further, the Exchange proposes to note that Market Orders

on the order book would be immediately cancelled if an options series is halted, provided

the Member designated the cancellation of Market Orders.[26] The proposed changes are

intended to make clear that in the event there is a Market Order in a zero bid market with

the Market Order was resting on the order book, the Member has an option to designate

the cancellation of that Market Order pursuant to the proposed cancel timer feature. In

this case, those Market Orders to sell, which were resting on the order book, would

immediately cancel upon a trading halt instead of waiting until the end of the pre-

established timer period. BX has identical language governing its Market Orders today.[27]

Like BX, the Exchange believes that the proposed intra-day timer feature will provide

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[25]   See Options 3, Section 8(k).

[26]   Members may make the designation to cancel their Market Orders through their
         FIX, OTTO, and Precise port settings.

[27]   See BX Options 3, Section 7(a)(5).

additional flexibility for Members that wish to cancel unexecuted Market Orders after a

certain period of time. Lastly, the Exchange proposes a non-substantive change to

capitalize the term "market orders" in the first sentence of Options 3, Section 7(a) for

consistency with the proposed rule text.

Intermarket Sweep Orders

The Exchange proposes to amend the ISO rule in Options 3, Section 7(b)(5),

which currently provides that an ISO is limit order that meets the requirements of Options

5, Section 1(h).[28] As amended, the ISO rule will provide:

> An Intermarket Sweep Order ("ISO") is a limit order that meets the requirements of Options 5, Section 1(h). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a TIF designation of IOC. ISOs may not be submitted during the Opening Process.

The proposed rule text is substantially similar to BX's ISO rule in BX Options 3,

Section 7(a)(6).[29] The Exchange is also proposing to add that ISOs may not be submitted

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[28]   Options 5, Section 1(h) provides that an ISO is a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate-Or-Cancel Order or an order that expires on the day it is entered.

[29]   BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." See BX Options 3, Section 7(a)(6). The Exchange notes that it intends to file a separate rule filing to add similar language as BX relating to how ISOs may be entered on the Exchange.

during the Opening Process to reflect current System handling. The Exchange notes that

BX similarly prohibits the submission of ISOs before the market opens and therefore

proposes to add a similar level of detail in the Exchange's ISO rule.

Other than the stipulation that ISOs must have a TIF[30] designation of IOC, the

proposed language does not amend the current ISO functionality but rather is intended to

add more granularity and more closely align the ISO rule with BX's ISO rule. The

Exchange does note that in connection with the System migration, the Exchange proposes

to amend the current ISO functionality to only allow ISOs to be entered as IOC. Today,

Options 5, Section 1(h) provides that an ISO may either be an IOC or an order that

expires on the day it is entered.[31] The Exchange is proposing to require ISOs to be

entered as IOC, which would cause an ISO to cancel in whole or in part upon receipt if

the ISO does not execute or does not entirely execute, because an ISO is generally used

when trying to sweep a price level across multiple exchanges in an effort to post the

balance of an order without locking an away market. The Exchange therefore believes

that ISOs have a limited purpose and should be cancelled if they do not execute or do not

entirely execute. As noted above, the proposal will align to current BX functionality that

similarly only allows ISOs to be entered as IOC on BX.

All-or-None Orders

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[30]   As discussed later in this filing, the Exchange is proposing to codify the definition
         of "Time in Force" or "TIF" to mean the period of time that the System will hold
         an order for potential execution. See proposed Supplementary Material .02 to
         Options 3, Section 7.

[31]   Because GEMX Options 5 incorporates ISE Options 5 by reference, ISE will file
         a subsequent ISE rule filing to amend Options 5 to remove the language in
         Options 5, Section 1(h) that currently allows ISOs to be entered as an order that
         expires on the day it is entered.

The Exchange proposes to amend the All-Or-None ("AON") Order rule in Options 3, Section 7(c), which currently provides that an AON Order is a limit or market order that is to be executed in its entirety or not at all, and that an AON Order may only be entered as an IOC Order. As amended, the AON rule will provide:

> An All-Or-None ("AON") Order is a limit or market order that is to be executed in its entirety or not at all. An AON Order may only be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

With the proposed changes, the Exchange is not amending current AON functionality; rather, it is memorializing current System behavior in a manner consistent with its affiliates. Today, AON Orders have a size contingency (i.e., executed in its entirety at the entered size or not at all) and must be IOC. The Exchange is specifying that AON Orders will execute against multiple, aggregated orders only if the executions would occur simultaneously to ensure that AON Orders are executed at the specified size while also honoring the priority of all other orders on the order book. The Exchange is adopting this rule text for AON orders to align to substantially similar language on BX.[32]

The Exchange notes that the handling of AONs as described in the proposed rule text in Options 3, Section 7(c) is consistent with the Exchange's allocation methodology in Options 3, Section 10. The additional detail makes clear that because of the size contingency of AON Orders, those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs.

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[32]   See BX Options 3, Section 7(a)(4)(A) (describing Minimum Quantity Orders and AON Orders as Contingency Orders). Unlike BX, the Exchange does not currently offer Minimum Quantity Orders.

The Exchange is also proposing to add that AON orders may not be submitted during the Opening Process to reflect current System handling. The Exchange notes that BX similarly prohibits the submission of AON orders before the market opens and therefore proposes to add a similar level of detail in the Exchange's AON rule.[33]

Stop Orders

The Exchange proposes to amend its Stop Order rule in Options 3, Section 7(d), which presently provides that a stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. The Exchange now proposes to add that a Stop Order shall be cancelled if it is immediately electable upon receipt.   Stop Orders allow Members increased control and flexibility over their transactions and the prices at which they are willing to execute an order. The purpose of a Stop Order is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be executed. A Stop Order that is immediately electable upon receipt would therefore negate the purpose of the Stop Order, so the Exchange would cancel such orders today. The Exchange believes that this ensures Members are able to use Stop Orders to achieve their intended purpose. The proposed changes codify current Stop Order handling and are intended to better align the Exchange's Stop Order rule with that of its affiliate, Phlx.[34]

The Exchange also proposes to specify that Stop Orders may only be entered

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[33]   See BX Options 3, Section 7(a)(7).

[34]   See Phlx Options 3, Section 7(b)(4).

through FIX or Precise. This is how Stop Orders are handled today. Because the

Exchange offers three order entry protocols today (FIX, Precise, and OTTO),[35] the

Exchange believes that adding this detail will make clear that Stop Orders are only

available to be entered through two of these order entry protocols and reduce any

potential confusion.

Stop Limit Orders

The Exchange proposes to amend its Stop Limit Order rule in Options 3, Section

7(e), which presently provides that a stop limit order is an order that becomes a limit

order when the stop price is elected. A stop limit order to buy is elected when the option

is bid or trades on the Exchange at, or above, the specified stop price. A stop limit order

to sell is elected when the option is offered or trades on the Exchange at, or below, the

specified stop price. The Exchange now proposes to add that a Stop Limit Order shall be

cancelled if it is immediately electable upon receipt. The Exchange would cancel these

orders today for the same reasons discussed above for Stop Orders. The proposed

changes codify current Stop Limit Order handling and are intended to better align the

Exchange's Stop Limit Order rule with that of Phlx.[36]

The Exchange also proposes to specify that Stop Limit Orders may only be

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[35]   "Ouch to Trade Options" or "OTTO" is an interface that allows Members and
         their Sponsored Customers to connect, send, and receive messages related to
         orders, auction 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) order messages; (6) risk protection triggers and cancel
         notifications; (7) auction notifications; (8) auction responses; and (9) post trade
         allocation messages. See Supplementary Material .03(b) to Options 3, Section 7.

[36]   See Phlx Options 3, Section 7(b)(4)(A).

entered through FIX or Precise. This is how Stop Limit Orders are handled today. For

the same reasons discussed above for Stop Orders, the Exchange believes that adding this

detail will make clear that Stop Limit Orders are only available to be entered through the

specified order entry protocols and reduce any potential confusion. Lastly, the Exchange

proposes a non-substantive change to correct a punctuation error in the paragraph header.

Cancel and Replace Orders

The Exchange proposes to relocate the rule text governing Cancel and Replace

Orders from Supplementary Material .02 to Options 3, Section 7 into Options 3, Section

7(f). The Exchange also proposes non-substantive, clarifying changes to the relocated

rule text to update the incorrect cross-cites therein to the System's price or other

reasonability checks. The Exchange also proposes to amend the following portion of the

rule, which currently provides: "The replacement order will retain the priority of the

cancelled order, if the order posts to the Order Book, provided the price is not amended,

size is not increased, or in the case of Reserve Orders,[37] size is not changed." The

Exchange proposes to make clear that in the case of Reserve Orders, a change in price

will also result in a change of priority for the replacement order. The Exchange also

proposes to clarify that the reference to the Reserve Order's size in this Rule is referring

to both displayed and non-displayed size. As amended, the rule will provide: "The

replacement order will retain the priority of the cancelled order, if the order posts to the

Order Book, provided the price is not amended, or size is not increased. In the case of

Reserve Orders, the replacement order will retain the priority of the cancelled order, if the

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[37]   As discussed later in this filing, a Reserve Order is defined in Options 3, Section
       7(g) as a Limit Order that contains both a displayed portion and a non-displayed
       portion.

order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed." The proposed changes will aid market participants in locating this order type in the main body of the rule, and add more granularity around how the Exchange will treat the cancellation and replacement of Reserve Orders.

Reserve Orders

As described in Options 3, Section 7(g), the Exchange offers Members a Reserve Order, which is a Limit Order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book. The non-displayed portion of a Reserve Order will be available for execution only after all displayed interest at that price has been executed. Both the displayed and the non-displayed portions of a Reserve Order will be ranked initially by the specified limit price and time of entry, and both the displayed and non-displayed portions of a Reserve Order will trade in accordance with the priority and allocation provisions in Options 3, Section 10.

When the displayed portion of a Reserve Order has been decremented, in whole or in part, it will be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion will include the previously displayed portion. Upon any refresh, the entire displayed portion of the order will be ranked at the specified limit price, assigned a new entry time (i.e., the time that the newly displayed portion of the order was refreshed), and given priority in accordance with Options 3, Section 10. Any remaining non-displayed portion of the order will receive the same time stamp as the newly displayed portion of the order.

The Exchange now proposes to enhance the Reserve Order rule by providing more granularity in how Members may elect to refresh the display quantity for the Reserve Order. The Exchange is not proposing to modify the current functionality of Reserve Orders, but rather proposes to augment the definition to clarify current System behavior. Specifically, the Exchange proposes to make clear that Reserve Orders may be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the Member.[38] The Exchange believes that this refresh feature for Reserve Orders provides more flexibility and opportunities for Members to add displayed liquidity to the Exchange. The Exchange believes that the proposed changes would add transparency to the operation of Reserve Orders, without altering current functionality. The Exchange notes that other options exchanges like Cboe currently offer similar refresh features on their Reserve Order functionality.[39]

Finally, the Exchange proposes non-substantive, technical changes in Options 3, Section 7(g) to reformat the paragraph numbering, correct a punctuation error in paragraph (3), and update a cross-cite in proposed paragraph (6).

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[38]   See proposed Options 3, Section 7(g)(4). The Exchange will also renumber the paragraphs within this rule accordingly. As it relates to the refresh quantity range, Members must designate a range for the random refresh election when they submit the Reserve Order if they elect a random refresh, otherwise the Reserve Order would be refreshed at a quantity equal to the initial size of the displayed portion. The range must be set at a number between 1 and the initial displayed quantity.

[39]   See Cboe Rule 5.6(c) (setting forth the random replenishment and fixed replenishment features for Reserve Orders).

Attributable Orders

As described in Options 3, Section 7(h), the Exchange currently offers

Attributable Orders, which allow Members to voluntarily display their firm IDs on the

orders. The rule also provides the Exchange with flexibility to announce which

Exchange Systems and class of securities for which the Attributable Order would be

available.[40]

The Exchange now proposes to delete existing text that refers to class of securities

in Options 3, Section 7(h). Attributable Orders are available for all classes of securities

today. The Exchange is therefore deleting this language as inaccurate. The Exchange

also proposes a corrective change herein to "a_n_ Option Trader Alert."

Customer Cross Orders

Customer Cross Orders are currently defined in Options 3, Section 7(i). The

Exchange proposes to add that such orders will trade in accordance with Options 3,

Section 12(a). This is a non-substantive amendment to add a cross-reference to Section

12(a), which currently describes in detail how a Customer Cross Order would execute on

the Exchange.

Qualified Contingent Cross Orders

Qualified Contingent Cross ("QCC") Orders are currently defined in Options 3,

Section 7(j). The Exchange proposes a non-substantive, technical change to add a

reference to "QCC" in the first sentence of this rule. The Exchange also proposes to add

that QCC Orders will trade in accordance with Options 3, Section 12(c). This is a non-

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40   Today, Attributable Orders are not available for the Facilitation, Solicited Order, and Price Improvement Mechanisms.

substantive amendment to add a cross-reference to Section 12(c), which currently

describes in detail how a QCC Order would execute on the Exchange.

The Exchange further proposes to specify that QCC Orders may only be entered

through FIX or Precise. This is how QCC Orders are handled today. Because the

Exchange offers three order entry protocols today (FIX, Precise, and OTTO), the

Exchange believes that adding this detail will make clear that QCC Orders are only

available to be entered through two of these order entry protocols and reduce any

potential confusion.

Preferenced Orders

The Exchange proposes to include the following definition of a Preferenced Order

in Options 3, Section 7(l) for ease of reference: "A Preferenced Order is as described in

Options 2, Section 10." This is not a new order type, as Preferenced Orders are currently

described in Options 2, Section 10. While this order type is not currently listed in the

order type rule in Options 3, Section 7, the Exchange believes that it will be useful to

market participants to have order types centralized within one rule. Phlx similarly lists

out Directed Orders (akin to Preferenced Orders) in its order type rule in Phlx Options 3,

Section 7(b)(11).

Add Liquidity Orders

Add Liquidity Orders ("ALOs") are currently defined in Options 3, Section 7(n).

Today, the Exchange offers ALOs to provide market participants with greater control

over the circumstances in which their orders are executed. ALOs are Limit Orders that

will only be executed as a "maker" on the Exchange (i.e., when the Member is providing

liquidity). Members can choose whether an ALO that is executable on the Exchange

upon entry (or that is not executable on the Exchange upon entry, but locks or crosses the

NBBO) will be cancelled or re-priced to one MPV above the national best bid (for sell

orders) or below the national best offer (for buy orders). If at the time of entry, an ALO

would lock or cross one or more non-displayed orders on the Exchange, the ALO will be

cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders)

or below the best non-displayed offer price (for buy orders).[41] Today, an ALO will only

be re-priced once and will be executed at the re-priced price. The Exchange notes that

without the ability to re-price an ALO in the foregoing manner, under certain

circumstances, an incoming ALO could execute against a displayed or non-displayed

order resting on the Exchange's limit order book, which would be in direct contravention

with the purpose of an ALO (to provide liquidity, not take liquidity).

As part of a concurrent rule filing, the Exchange is proposing to adopt a re-pricing

mechanism identical to current BX re-pricing functionality[42] to avoid certain orders from

locking or crossing an away market's price.[43] In connection with the proposed adoption

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[41]   As discussed in more detail below, the Exchange will amend this sentence to say
         "orders *or quotes*" to codify existing ALO behavior.

[42]   Today, BX re-prices certain orders to avoid locking and crossing away markets,
         consistent with its Trade-Through compliance and Locked or Crossed Markets
         obligations. See BX Options 3, Section 5(d). See also Securities Exchange Act
         Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-
         2020-017) (describing BX re-pricing mechanism in BX Options 3, Section 5).

[43]   See Securities Exchange Act Release No. 96363 (November 18, 2022) (SR-
         GEMX-2022-10) ("Re-Pricing Filing"). Specifically in the Re-Pricing Filing, the
         Exchange is proposing to adopt the following language in Options 3, Section 5(d),
         which will be identical to BX Options 3, Section 5(d): 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

of the BX-like re-pricing mechanism in Options 3, Section 5(d) in the Re-Pricing Filing,

the Exchange now proposes to make related changes to the ALO rule in Options 3,

Section 7(n). In particular, the Exchange proposes that if an ALO would not lock or

cross an order or quote on the System but would lock or cross the NBBO, the order will

be handled pursuant to Options 3, Section 5(d), which will set forth the new BX-like re-

pricing mechanism for non-routable orders.[44] As noted in Options 3, Section 7(n), ALOs

are inherently non-routable. Accordingly, the Exchange is proposing to handle ALOs in

a consistent manner with the new re-pricing mechanism. Because the new mechanism

will allow for continuous re-pricing as discussed above, the Exchange also proposes to

remove the current limitation in the ALO rule stipulating that these orders will only be re-

priced once and executed at the re-priced price. The proposed order handling for ALOs

will be functionally identical to ALO handling on BX today.[45]

The Exchange further proposes a clarifying change in the ALO rule that would

not amend current System behavior. The Exchange proposes to add "or quotes" to make

clear that if at the time of entry, an ALO would lock or cross one or more non-displayed

orders *or quotes* on the Exchange, the ALO will be cancelled or re-priced to one MPV

above the best non-displayed bid price (for sell orders) or below the best non-displayed

offer price (for buy orders).

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

[44]   Id.

[45]   See BX Options 3, Section 7(a)(12). See also Securities Exchange Act Release
No. 93896 (January 4, 2022), 87 FR 1231 (January 10, 2022) (SR-BX-2021-054),
which introduced ALOs on BX.

Finally, the Exchange proposes to add that ALOs may only be submitted when an

options series is open for trading to make clear that an ALO would not be accepted

during the Opening Process when the order book is not available. The proposed rule text

is consistent with current functionality, so the Exchange is codifying current ALO

behavior with this change and adding the same level of detail currently in BX's ALO

rule.[46]

As amended, Options 3, Section 7(n) will provide:

An Add Liquidity Order is a limit order that is to be executed in whole or in part
on the Exchange (i) only after being displayed on the Exchange's limit order
book; and (ii) without routing any portion of the order to another market center.
Members may specify whether an Add Liquidity Order shall be cancelled or re-
priced to the minimum price variation above the national best bid price (for sell
orders) or below the national best offer price (for buy orders) if, at the time of
entry, the order (i) is executable on the Exchange; or (ii) the order is not
executable on the Exchange, but would lock or cross the national best bid or offer.
If at the time of entry, an Add Liquidity Order would lock or cross one or more
non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be
cancelled or re-priced to the minimum price variation above the best non-
displayed bid price (for sell orders) or below the best non-displayed offer price
(for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order
would not lock or cross an order or quote on the System but would lock or cross
the NBBO, the order will be handled pursuant to Options 3, Section 5(d). An Add
Liquidity Order will be ranked in the Exchange's limit order book in accordance
with Options 3, Section 10. Add Liquidity Orders may only be submitted when
an options series is open for trading.

Opening Sweep

Opening Sweeps are currently defined in Options 3, Section 7(t) as a Market

Maker order submitted for execution against eligible interest in the System during the

Opening Process pursuant to Options 3, Section 8(b)(1). The Exchange proposes to

replace the current definition with the following: "An Opening Sweep is a one-sided

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46   Id.

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. The

Opening Sweep will only participate in the Opening Process pursuant to Options 3,

Section 8(b)(1) and will be cancelled upon the open if not executed."

The proposed rule text is consistent with current functionality, so the Exchange is

providing additional context to the Opening Sweep as currently described in Options 3,

Section 8(b) and codifying current Opening Sweep behavior with this change.

Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker

during the Opening Process, the Exchange is making clear in the proposed rule text that

this order type is entered through SQF.[47] The Exchange is also specifying that Opening

Sweeps are not subject to any risk protections in Options 3, Section 15 (except

Automated Quotation Adjustments) because the Opening Process itself has boundaries

(notably, the Quality Opening Market[48] and the Opening Quote Range[49]) within which

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[47]   See Supplementary Material .03(c) of Options 3, Section 7, which notes that SQF
         is an interface that allows Market Makers to submit IOC orders.

[48]   A "Quality Opening Market" is a bid/ask differential applicable to the best bid
         and offer from all Valid Width Quotes defined in a table to be determined by the
         Exchange and published on the Exchange's web site. The calculation of Quality
         Opening Market is based on the best bid and offer of Valid Width Quotes. The
         differential between the best bid and offer are compared to reach this
         determination. The allowable differential, as determined by the Exchange, takes
         into account the type of security (for example, Penny versus non-Penny Interval
         Program issue), volatility, option premium, and liquidity. The Quality Opening
         Market differential is intended to ensure the price at which the Exchange opens
         reflects current market conditions. See Options 3, Section 8(a)(7).

[49]   The Opening Quote Range represents the outer boundaries at which the Exchange
         may open. See Options 3, Section 8(i).

orders will be executed. As it relates to the proposed language relating to Opening

Sweep participation in the Opening Process and cancellation upon the open, the

Exchange notes that this concept is not new as Opening Sweeps are already described in

Options 3, Section 8 today and apply only during the Opening Process. The language

merely provides additional context to the order type.

The Exchange notes that the Opening Sweep is functionally identical to the

Opening Sweep on Phlx,[50] so the proposed language will harmonize the Exchange's rule

with the current Phlx rule.

Time in Force

Today, the Exchange notes that certain functionality is described as an "order

type" in Options 3, Section 7, but would be more precisely described as a TIF attribute

that may be added to a particular order type. Accordingly, the Exchange proposes to

codify the term "TIF" in proposed Supplementary Material .02 to Options 3, Section 7.

The proposed TIF definition will be identical to the TIF definition in BX Options 3,

Section 7(b). The Exchange also proposes to relocate various rules into Supplementary

Material .02 to centralize the TIFs that are available on the Exchange today. As

proposed, the rule text will provide:

.02 **Time in Force**. 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:

   (a) **Day**. An order to buy or sell entered with a TIF of "DAY," which, if not executed,
       expires at the end of the day on which it was entered. All orders by their terms are
       Day orders unless otherwise specified. Day orders may be entered through FIX,
       OTTO, or Precise.

   (b) **Good-Till-Canceled**. An order to buy or sell entered with a TIF of "GTC" that

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[50]   See Phlx Options 3, Section 7(b)(6).

remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTC orders may be entered through FIX or Precise.

(c) **Good-Till-Date**. An order to buy or sell entered with a TIF of "GTD," which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX or Precise.

(d) **Immediate-or-Cancel**. An order entered with a TIF of "IOC" that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.

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

    (2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively.

    (3) Block Orders, Facilitation Orders, SOM Orders, PIM Orders, QCC Orders, and Customer Cross Orders 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) **Opening Only**. An Opening Only ("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. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.

The Exchange is relocating rule text governing Day orders from Options 3, Section 7(l) into Supplementary Material .02(a) to specify that orders may be entered with a TIF of DAY. The Exchange also proposes to include additional detail that Day orders may be entered through FIX, OTTO, or Precise. This is how Day orders operate today, and the proposed rule text merely adds the same level of detail currently in BX's

Day order rule.[51]

The Exchange is relocating rule text governing Good-Till-Canceled ("GTC")

orders from Options 3, Section 7(r) into Supplementary Material .02(b) to specify that

orders may be entered with a TIF of GTC. The Exchange also proposes to include

additional detail that GTC orders may be entered through FIX or Precise. This articulates

current GTC behavior.

The Exchange is relocating rule text governing Good-Till-Date ("GTD") orders

from Options 3, Section 7(p) into Supplementary Material .02(c) to specify that orders

may be entered with a TIF of GTD. The Exchange also proposes a number of changes

that do not modify current GTD functionality, but are intended to align to the GTC rule

described above. Today, GTC and GTD orders are intended to be functionally similar

except GTC generally persists until it is cancelled by the Member and GTD generally

persists until the assigned date. Accordingly, the Exchange seeks to add a similar level of

detail to the GTD rule as it is proposing in the GTC rule above. First, the Exchange

proposes to remove the word "limit" from the relocated GTD rule text. Similar to GTC

orders, GTD orders can also be sent as Market Orders (in addition to Limit Orders) today.

The proposed changes will therefore align the rule text with current functionality.

Second, the Exchange proposes to add that GTD orders will be canceled in the event of a

corporate action that results in an adjustment to the terms of an option contract. This

language is copied from current GTC rule text and articulates current GTD behavior.

Third, the Exchange proposes to include additional detail that GTD orders may be

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[51]   See BX Options 3, Section 7(b)(3). BX's rule does not refer to OTTO or Precise
         because BX does not offer these order entry ports today.

entered through FIX or Precise. This mirrors the proposed changes for GTC orders and

articulates current GTD behavior.

The Exchange is relocating rule text governing IOC orders from Options 3,

Section 7(b)(3) into Supplementary Material .02(d) to Options 3, Section 7 to specify that

orders may be entered with a TIF of IOC. The Exchange also proposes a number of

changes to conform the Exchange's IOC rule with that of BX. None of the proposed

changes modify current Exchange IOC functionality. First, the Exchange proposes to

remove the word "limit" from the relocated IOC rule text in Supplementary Material

.02(d). Today, IOC orders may be sent as either a Market Order or Limit Order.

Eliminating the word "limit" from the proposed IOC rule will therefore align the rule text

with current functionality.[52] Second, the Exchange proposes to memorialize current IOC

behavior in Supplementary Material .02(d)(1) by stating that orders entered with a TIF of

IOC are not eligible for routing.[53] Third, the Exchange proposes to codify current IOC

behavior in Supplementary Material .02(d)(2) by stating that IOC orders may be entered

through FIX, OTTO, Precise, or SQF.[54]

Fourth, the Exchange proposes to note in the same section that an IOC order

entered by a Market Maker through SQF will not be subject to the Order Price

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[52]   BX similarly allows both Market Orders and Limit Orders to be entered as IOC.
         See BX Options 3, Section 7(b)(2). The Exchange is not specifying Market and
         Limit Orders in the relocated IOC rule text for consistency with the other TIFs in
         proposed Supplementary Material .02 to Options 3, Section 7.

[53]   See BX Options 3, Section 7(b)(2)(A) for identical language.

[54]   See BX Options 3, Section 7(b)(2)(B) for substantially similar language. BX's
         rule does not refer to OTTO or Precise because BX does not offer these ports
         today.

Protection,[55] Market Order Spread Protection,[56] and Size Limitation Protection[57] as

defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B), respectively.[58] Today, the

IOC rule explicitly excludes the Limit Order Price Protection and Size Limitation

Protection from applying to IOC orders entered through SQF. As discussed later in this

filing, the current Limit Order Price Protection will be replaced by a similar risk

management tool called the Order Price Protection that will be identical to BX, so the

Exchange will likewise reflect that change in the proposed IOC rule. The proposed

change to exclude the Market Order Spread Protection from applying to IOC orders

entered through SQF is not a change to IOC current functionality, but rather, a change to

align the rule with current System behavior and with BX IOC rule.[59]

     The Exchange notes while it generally only permits orders (including IOC orders)

to be entered into its three order entry protocols, FIX, OTTO, and Precise, it does permit

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[55]   The current IOC rule references the Limit Order Price Protection as set forth in
         Options 3, Section 15(a)(1)(A). As discussed later in this filing, the Exchange is
         proposing to replace the existing Limit Order Price Protection with a similar risk
         management tool called Order Price Protection. See proposed Options 3, Section
         15(a)(1)(A).

[56]   Market Orders will be rejected if the NBBO is wider than a preset threshold at the
         time the order is received by the System. Market Order Spread Protection shall
         not apply to the Opening Process or during a trading halt. The Exchange may
         establish different thresholds for one or more series or classes of options. See
         Options 3, Section 15(a)(1)(B).

[57]   There is a limit on the number of contracts an incoming order or quote may
         specify. Orders or quotes that exceed the maximum number of contracts are
         rejected. The maximum number of contracts, which shall not be less than 10,000,
         is established by the Exchange from time-to-time. See Options 3, Section
         15(a)(2)(B).

[58]   See BX Options 3, Section 7(b)(2)(B) for substantially similar language.

[59]   See BX Options 3, Section 7(b)(2)(B).

the entry of IOC orders by Market Makers into its quote protocol, SQF. The Exchange

has elected not to apply the specified risk protections on IOC orders entered through SQF

as it does for IOC orders entered through FIX, OTTO, and Precise because only Market

Makers utilize SQF to enter IOC orders. Market Makers are professional traders with

their own risk settings. FIX, OTTO, and Precise, on the other hand, are utilized by all

market participants who may not have their own risk settings, unlike Market Makers.

Market Makers utilize IOC orders to trade out of accumulated positions and manage their

risk when providing liquidity on the Exchange. The Exchange understands that proper

risk management, including using these IOC orders to offload risk, is vital for Market

Makers, and allows them to maintain tight markets and meet their quoting and other

obligations to the market. Market Makers handle a large amount of risk when quoting

and in addition to the risk protections required by the Exchange, Market Makers utilize

their own risk management parameters when entering orders, minimizing the likelihood

of a Market Maker's erroneous order from being entered. The Exchange believes that

Market Makers, unlike other market participants, have the ability to manage their risk

when submitting IOC orders through SQF and should be permitted to elect this method of

order entry to obtain efficiency and speed of order entry, particularly in light of the

quoting obligations that the Exchange imposes on these participants, unlike other market

participants.[60] The Exchange believes that allowing Market Makers to submit IOC

orders through their preferred protocol increases their efficiency in submitting such

orders and thereby allows them to maintain quality markets to the benefit of all market

participants that trade on the Exchange. For the foregoing reasons, the Exchange has

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[60]   See Options 2, Section 5(e).

opted to not offer the Order Price Protection, Market Order Spread Protection, and Size

Limitation for IOC orders entered through SQF because Market Makers have more

sophisticated infrastructures than other market participants and are able to manage their

risk.

The Exchange also proposes to add substantially similar language in

Supplementary Material .03(c), which governs the SQF protocol. Specifically, the

Exchange proposes to add: "Immediate-or-Cancel Orders entered into SQF are not

subject to the Order Price Protection, Market Order Spread Protection, and Size

Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively."

Adding these exceptions to the SQF rule as well as the IOC rule will make clear that

these order protections will not apply to IOC orders entered through SQF.

The Exchange further proposes to specify in Supplementary Material .02(d)(3)

that Block Orders, Facilitation Orders, SOM Orders, PIM Orders, QCC Orders, and

Customer Cross Orders 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.[61] The

proposed changes in Supplementary Material .02(d)(3) memorialize current System

behavior and are intended to bring greater transparency in how these order types operate

today.

The Exchange is relocating rule text governing OPG orders from Options 3,

Section 7(o) into Supplementary Material .02(e) to specify that orders may be entered

with a TIF of OPG. The Exchange also proposes a number of changes to conform the

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[61]   See BX Options 3, Section 7(b)(2)(C) for substantially similar language for
         PRISM orders.

Exchange's OPG rule with that of BX. Other than as specified below, the proposed changes do not modify current Exchange OPG functionality. The Exchange proposes to remove the word "limit" from the relocated OPG rule text in Supplementary Material .02(e) in order to reflect that the Exchange will now allow both Market and Limit OPG Orders. As noted above, this is a proposed functionality change to align with current BX OPG functionality.[62] The Exchange also proposes non-substantive changes to replace the current references to the opening rotation with the term "Opening Process" as defined in Options 3, Section 8. The Exchange further proposes to codify current OPG behavior by stating that OPG orders may not route.[63] Lastly, the Exchange proposes to memorialize current OPG behavior by indicating that OPG orders are not subject to any protections listed in Options 3, Section 15, except Size Limitation.[64] Today, the Exchange does not apply any of the risk protections in Options 3, Section 15 (except Size Limitation) because the Opening Process itself has boundaries within which orders will be executed.[65]

Opening Process

In connection with the technology migration, the Exchange proposes several enhancements to its Opening Process in Options 3, Section 8. The Exchange first proposes to remove the current limitation that only allows routable Public Customer[66]

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[62]   See BX Options 3, Section 7(b)(1).

[63]   See BX Options 3, Section 7(b)(1) for identical language.

[64]   Id.

[65]   See Options 3, Section 8.

[66]   The term "Public Customer" means a person or entity that is not a broker or

interest to route during the Opening Process. Instead, all routable market participant

interest will be allowed to route to align the Exchange's opening functionality with BX.[67]

Like BX, the Exchange believes that it will be beneficial to provide all market

participants with the opportunity to have their interest executed on away markets during

the Opening Process. To effectuate the foregoing, the Exchange proposes to amend

Options 3, Section 8(b) to remove the sentence providing that only Public Customer

interest is routable during the Opening Process. The Exchange further proposes to make

a related change in Options 3, Section 8(i)(7), which currently provides that the System

will route routable Public Customer interest pursuant to Options 3, Section 10(c)(1)(A).

Specifically, the Exchange proposes to remove the reference to Public Customer to

indicate all routable interest will route in accordance with the Exchange's priority rule.

The Exchange will also update the cross-cite to Options 3, Section 10(c)(1)(A), currently

pointing to the Priority Customer priority overlay, to the more general priority rule in

Options 3, Section 10(c). The Exchange further proposes to amend Options 3, Section

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dealer in securities. See Option 1, Section 1(a)(41).

[67]   See BX Options 3, Section 8. See also Securities Exchange Act Release No.
        89731 (September 1, 2020), 85 FR 55524 (September 8, 2020) (SR-BX-2020-
        016) (noting throughout that BX permits all market participants to route during its
        Opening Process). At the end of the Opening Process, pursuant to GEMX
        Options 3, Section 8(j)(6) and subsection (i), the System will execute orders at the
        Opening Price that have contingencies (such as, without limitation, Reserve
        Orders) and non-routable orders, such as a 'Do-Not-Route' or 'DNR' Orders, to
        the extent possible. The System will only route non-contingency Public Customer
        orders, except that Public Customer Reserve Orders may route up to their full
        volume. For contracts that are not routable, pursuant to GEMX Options 3,
        Section 8(j)(6), such as DNR Orders and orders priced through the Opening Price,
        the System will cancel (1) any portion of a Do-Not-Route order that would
        otherwise have to be routed to the exchange(s) disseminating the ABBO for an
        opening to occur, or (2) any order or quote that is priced through the Opening
        Price. All other interest will be eligible for trading after opening.

8(j)(6) to remove the references to "Public Customer." As amended, Section 8(j)(6) will provide: "The System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as "Do-Not-Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency orders, except that Reserve Orders may route up to their full volume."

In addition, the Exchange proposes to amend Options 3, Section 8(g)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price.[68] Today, Section 8(g)(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. The Exchange now proposes to no longer round in the direction of the previous trading day's closing price and simply round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. The proposed changes are intended to simplify and 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.

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

The Exchange further proposes to amend Options 3, Section 8(i)(3), which

currently describes the determination of Opening Quote Range ("OQR") boundaries in

certain scenarios.[69] Specifically, the Exchange proposes to replace "are marketable

against the ABBO" with "cross the ABBO" to more precisely describe the specified

scenario within in this rule. The Exchange notes that this is not a System change, but

rather a clarifying change around the applicability of the rule text. Lastly, the Exchange

proposes a non-substantive change in paragraph (a)(1)(2) of Options 3, Section 8 to

remove the extra instance of "market" from the first sentence.

Auction and Crossing Mechanisms

Facilitation and Solicited Order Mechanisms

The Exchange first proposes to make clarifying changes in Options 3, Section 11

(Auction Mechanisms). Today, Supplementary Material .02 to Options 3, Section 11

states that Responses[70] represent non-firm interest that can be canceled at any time prior

to execution, and that Responses are not displayed to any market participants. The

Exchange now proposes a non-substantive change to relocate this language into the

introductory paragraph of Options 3, Section 11 after the definition of "Response" for

better readability. The Exchange also proposes to add "or modified" after the "canceled"

to indicate that auction Responses may be canceled or modified at any time prior to

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[69]   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.

[70]   For purposes of Options 3, Section 11, a "Response" means an electronic message
         that is sent by Members in response to a broadcast message. A "broadcast
         message" is an electronic message sent by the Exchange to all Members upon
         entry of an order into one of the auction mechanisms listed within Options 3,
         Section 11 (i.e., Block, Facilitation, or Solicited Order Mechanisms).

execution. This is not a change to current System behavior, but rather a clarification that better aligns the rule text to existing functionality.

Crossing Orders

The Exchange proposes a non-substantive change to the description of QCC Orders in Options 3, Section 12(c)(2) by removing "in" for better readability.

Price Improvement Mechanism

The Exchange proposes a number of changes to Options 3, Section 13 (Price Improvement Mechanism for Crossing Transactions), some of which are System changes to align with existing BX Price Improvement Mechanism ("BX PRISM") functionality and others that are non-System changes that add greater clarity to current PIM behavior. The Exchange proposes to amend Options 3, Section 13(b)(4) to add clarifying rule text to the current sentence, which states, "The Crossing Transaction[71] may not be canceled, but the price of the Counter-Side Order may be improved during the exposure period." The Exchange proposes to add "or modified" after the word "canceled" to make clear that the Crossing Transaction may not be canceled or modified, but the Counter-Side Order may be improved during the exposure period. This proposed change would not amend the current System, rather it would bring greater clarity to the rule text that modifications are not permitted unless the Counter-Side Order is being improved during the exposure period.

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[71]   A "Crossing Transaction" is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). See Options 3, Section 13(b).

The Exchange proposes to add rule text within Options 3, Section 13(b)(5) which states, "Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an auction and will be rejected." The Exchange notes that this rule text represents current System behavior. BX has a similar provision within BX Options 3, Section 13(i)(E). The Exchange notes that this rule text will bring greater clarity to when a Crossing Transaction would be eligible to initiate a PIM.

The Exchange proposes to amend the current PIM functionality within Options 3, Section 13(c)(3). Today, during the exposure period, Improvement Orders[72] may not be canceled, however, Improvement Orders may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX PRISM today within BX Options 3, Section 13(ii)(A)(8). The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order[73] would be handled outside of the auction process. For Improvement

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[72]   Improvement Orders are responses entered by Members to indicate the size and price at which they want to participate in the execution of the Agency Order. See Options 3, Section 13(c)(1).

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

Orders through SQF, the modification and cancellation of such orders will be handled by

sending new Improvement Orders that overwrite the existing Improvement Order with

updated price/quantity instructions.

Next, the Exchange proposes to amend Options 3, Section 13(d)(5), which

currently states, "If a trading halt is initiated after an order is entered into the Price

Improvement Mechanism, such auction will be automatically terminated without

execution." The Exchange proposes to instead provide, "If a trading halt is initiated after

an order is entered into the Price Improvement Mechanism, such auction will be

automatically terminated with execution solely with the Counter-Side Order." In the

event of a trading halt, since the Counter-Side Order has guaranteed that an execution

will occur at the same price as the Crossing Transaction or better, and Improvement

Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to

execute the Crossing Transaction. This is similar to functionality on BX PRISM at BX

Options 3, Section 13(ii)(C).[74]

Section 7 (as described above, the current definition will be moved to proposed Options 3, Section 7(f) with no substantive changes).

[74]   BX Options 3, Section 13(ii)(C) provides that if the situations described in sub-paragraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at: (1) in the case of the BX BBO crossing the PRISM Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at least $0.01 better than the price of such limit order at the time of the conclusion of the Auction; or (2) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

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The Exchange also proposes a System change to adopt a new same side execution price check for PIM, which will be described in new subsection (d)(6) of Options 3, Section 13 and will be functionally identical to BX PRISM. As proposed, Options 3, Section 13(d)(6) will provide that if the PIM execution price would be the same or better than an order on the limit order book on the same side of the market as the Agency Order, the Agency Order may only be executed at a price that is at least $0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the initiating Crossing Transaction price, then the entire Agency Order will trade at the initiating Crossing Transaction price with all better priced counter-side interest being considered for execution at the initiating Crossing Transaction price. As noted above, this price check will be functionally identical to the same side execution price check on BX PRISM today.[75] Like BX, the proposed price check is designed to ensure that the Exchange would not trade at prices that would lock or cross interest on the same side of the market as the Agency Order where limit orders have rested and obtained priority to execute at that price. In the event where a limit order arrives on the same side of the market as the Agency Order and is at the same or better price than the initiating Crossing Transaction price, the Exchange would execute the entire PIM order at the initiating Crossing Transaction price. The execution takes place at this price because the PIM is guaranteed an execution and the PIM agency side instructions would not allow an

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[75]   BX Options 3, Section 13(ii)(I) provides that if the execution price of the PRISM Auction would be the same or better than an order on the limit order book on the same side of the market as the PRISM Order, the PRISM Order may only be executed at a price that is at least $0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the stop price, then the entire PRISM Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

execution to take place at a higher (lower) price than submitted for a buying (selling) agency side PIM order. Considering that the limit order has arrived either at or better on the same side as the Agency Order than the agency side price, the initiating Crossing Transaction price is the only price at which the guaranteed execution can take place. The following examples illustrate how the proposed PIM execution price check would work:

Example: PIM executes with Improvement Order at $0.01 better than a limit order on the same side of the market as the Agency Order

Firm Limit order to buy @ 1.40 arrives prior to the PIM auction beginning

GEMX BBO: 1.40 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated
PIM Improvement Order[76] to sell 20 @ 1.40 arrives

Auction concludes after timer and PIM Agency Order trades 20 with PIM Improvement Order @ 1.41; the Counter-Side Order[77] cancels

Example: PIM executes at Agency Price with all better priced interest when limit order on same side equals or crosses the initiating Crossing Transaction price

Assume GEMX BBO: 1.00 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated
PIM Improvement Order to sell 20 @ 1.40 arrives
During the exposure period, Firm Limit order to buy @ 1.50 arrives

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[76]   "Improvement Orders" are responses sent by Members during the PIM's exposure period in response to the PIM that indicate the size and price at which they want to participate in the execution of the Agency Order. <u>See</u> Options 3, Section 13(c)(1).

[77]   The "Counter-Side Order" is the counter-side order for the full size of the Agency Order that is entered into the PIM by the initiating Electronic Access Member. <u>See</u> Options 3, Section 13(b).

Auction concludes after timer and PIM Agency Order trades 12 with PIM Improvement Order @ 1.50 and 8 with the Counter-Side Order @ 1.50 (i.e., the guaranteed execution price) because all better priced interest must trade at the initiating Crossing Transaction price when the limit order on the same side equals or crosses the initiating Crossing Transaction price.[78] The remainder of the Counter-Side Order and the remainder of the PIM Improvement Order cancel. The execution takes place at 1.50 because the PIM is guaranteed an execution, and the PIM agency side instructions would not allow an execution to take place at a higher price than the submitted 1.50 buying price for the agency side PIM order.

Finally, the Exchange proposes to amend Supplementary Material .02 to Options 3, Section 13 to add the following sentence: "It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction." BX has a similar prohibition within BX Options 3, Section 13(iii). The proposed new rule is intended to provide guidance to Members where certain behavior within a PIM will not be considered a bona fide transaction.

Order Price Protection

The Exchange currently has a Limit Order Price Protection in Options 3, Section 15(a)(1)(A), which is a "fat finger" check designed to address risks to market participants of human error in entering certain orders at unintended prices. Specifically, there is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below

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[78]   The order is allocated pursuant to Options 3, Section 13(d)(3) where the Counter-Side Order will be allocated the greater of 1 contract or 40%, which, in this case, equates to 8 contracts out of the 20 contracts. Thus, in this case, the Improvement Order is allocated 12 contracts to fully execute the 20 contracts of the original PIM Agency Order.

the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit

is established by the Exchange from time-to-time for orders to buy (sell) as the greater of

the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed $2.00,

or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%.

The Exchange proposes to replace the existing risk protection with an Order Price

Protection ("OPP") that would similarly prevent the execution of limit orders at prices

outside pre-set parameters. The proposed OPP will be functionally similar to the OPP

functionality currently offered by BX.[79] In particular, proposed Options 3, Section

15(a)(1)(A) will provide that OPP is a feature of the System that prevents limit orders at

prices outside of pre-set standard limits from being accepted by the System. Further,

OPP will reject incoming orders that exceed certain parameters according to the

following algorithm set forth in proposed Options 3, Section 15(a)(1)(A)(ii):

> (a) If the better of the NBBO or the internal market BBO (the "Reference
> BBO") on the contra-side of an incoming order is greater than $1.00,
> orders with a limit more than the greater of the below will cause the order
> to be rejected by the System upon receipt.
>
> (1) 50% less (greater) than such contra-side Reference Best Bid (Offer);
> or
>
> (2) a configurable dollar amount not to exceed $1.00 less (greater) than
> such contra-side Reference Best Bid (Offer) as specified by the
> Exchange announced via an Options Trader Alert.

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[79]   BX's OPP is currently memorialized in BX Options 3, Section 15(a)(1), which
provides that OPP is a feature of the System that prevents certain day limit, good
til cancelled, and immediate or cancel orders at prices outside of pre-set standard
limits from being accepted by the System. BX's rule also provides that OPP
applies to all options but does not apply to market orders. As described above,
the Exchange is proposing to adopt an OPP rule that more accurately describes
this functionality than BX's current OPP rule. BX will file a separate rule change
to conform its OPP rule with the Exchange's proposed rule text.

(b) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(1) 100% less (greater) than such contra-side Reference Best Bid (Offer); or

(2) a configurable dollar amount not to exceed $1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

The proposed OPP will be calculated using the better of the NBBO or the internal market BBO (i.e., the Reference BBO) instead of the Exchange BBO as currently used today, which will align to current BX functionality.[80] Like BX, the Exchange believes that calculating OPP on the basis of the better of the NBBO or the internal market BBO protects investors and the public interest where the internal market BBO is better than the NBBO. In addition, the proposed OPP parameters will be the greater of a percentage threshold or fixed dollar amount, similar to today's limit order price protection that uses the greater of a percentage or fixed dollar threshold. The proposed parameters are identical to BX's OPP.[81] The Exchange believes that the proposed algorithm for OPP would continue to provide a reasonable limit to the range where orders will be accepted.

As set forth in proposed Options 3, Section 15(a)(1)(A)(i), OPP will be operational each trading day after the opening until the close of trading, except during trading halts, which will be identical to current functionality.[82] The Exchange also

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[80]   See BX Options 3, Section 15(a)(1)(B).

[81]   Id. The Exchange will initially set the fixed dollar configuration at $0.05, identical to BX.

[82]   See Options 3, Section 15(a)(1)(A) (currently providing that the limit order price protection does not apply to the opening process or during a trading halt).

proposes in this paragraph to add identical language as BX, which will provide the

Exchange with discretion to temporarily deactivate OPP from time to time on an intra-

day basis if it is determined that unusual market conditions warranted deactivation in the

interest of a fair and orderly market. Like BX, the Exchange believes that it will be

useful to have the flexibility to temporarily disable OPP intra-day in response to an

unusual market event (for example, if dissemination of data was delayed and resulted in

unreliable underlying values needed for the Reference BBO). Members would be

notified of intra-day OPP deactivation and any subsequent reactivation by the Exchange

through the issuance of System status messages. Specifically, the Exchange proposes to

add in Options 3, Section 15(a)(1)(A)(i) that OPP may be temporarily deactivated on an

intra-day basis at the Exchange's discretion.

The following examples illustrate the application of the proposed OPP thresholds:

Example: An option priced less than or equal to $1.00

For a penny MPV option with a BBO on GEMX of $0.01 x $0.02, consider that the
configurable dollar amount is set to $0.05

If the incoming order was less than $1.00, and the Reference BBO is the internal market
BBO, the System will reject buy orders priced higher than the greater of (i) $0.04 (100%
greater than the contra-side Reference Best Offer of $0.02) or (ii) $0.07 ($0.02 offer +
$0.05 configuration)

Example: An option priced greater than $1.00

For a penny MPV option with a BBO on GEMX of $1.01 x $1.02, consider that the
configurable dollar amount is set to $0.05

If the incoming order was more than $1.00, and the Reference BBO is the internal market
BBO, the System will reject buy orders priced higher than the greater of (i) $1.53 (50%
greater than the contra-side Reference Best Offer of $1.02) or (ii) $1.07 ($1.02 offer +
$0.05 configuration)

Post-Only Quoting Protection

The Exchange proposes to adopt an optional quoting protection for Market

Makers that will be identical to current BX functionality.[83] This optional risk protection

would allow Market Makers to prevent their quotes from removing liquidity from the

Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt the new risk protection in Options 3,

Section 15(a)(3)(C). As proposed, Market Makers may elect to configure their SQF

protocols to prevent their quotes from removing liquidity ("Post-Only Quote

Configuration"). A Post-Only Quote Configuration would re-price or cancel a Market

Maker's quote that would otherwise lock or cross any resting order or quote[84] on the

order book upon entry. Market Makers may elect whether to re-price or cancel their

quotes with this functionality. When configured for re-price, quotes would be re-priced

and displayed by the System to one MPV below the current best offer (for bids) or above

the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a

Post-Only Quote Configuration would not lock or cross an order or quote on the System

but would lock or cross the NBBO, the quote will be handled pursuant to Options 3,

Section 4(b)(6).[85] When configured for cancel, Market Makers will have their quotes

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[83]   See BX Options 3, Section 15(c)(3).

[84]   This would include any re-priced orders as described in the Re-Pricing Filing as
         proposed Options 3, Section 5(d), ALOs as described in proposed Options 3,
         Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6).
         As described above, ALOs may re-price.

[85]   Options 3, Section 4(b)(6) provides that 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 either be re-
         priced and displayed at one minimum price variance above (for offers) or below
         (for bids) the national best price, or immediately cancelled, as configured by the

cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. Finally, the Exchange notes that similar to BX, this risk protection will not apply during an Opening Process because the order book is established once options series are open for trading.

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

Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example

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

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

Re-priced Post-Only Quote Configuration – Non-Penny Interval Program Display and Execution Example

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

Member.

- Order to sell 10 contracts arrives @ $0.95
  - 7 contracts execute with Market Maker A @ $0.95
  - 3 contracts execute with Market Maker B @ $0.95

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

Kill Switch

As set forth in Options 3, Section 17, the Exchange offers an order cancellation

Kill Switch, which is an optional tool that allows Members to initiate a message to the

System to promptly cancel and restrict their order activity on the Exchange, or across

both the Exchange and its affiliate, ISE. Members may submit a Kill Switch request to

the System for certain identifier(s) ("Identifier") on either a user or group level.[86]

Today, Members can log in through a graphical user interface ("GUI") to send a message

to the Exchange to initiate the order cancellation Kill Switch.[87] As an alternative to the

GUI Kill Switch, Members may also send a message through one of the Exchange's

order entry ports (i.e., FIX, Precise, and OTTO) to initiate the order cancellation Kill

Switch.[88] Once a Member initiates the Kill Switch (either through the GUI or an order

entry port), it will result in the cancellation of all existing orders for the requested

Identifier(s). The Member will be unable to enter any additional orders for the affected

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[86]   Identifiers include Exchange accounts, ports, and/or mnemonics. Thus, a Member using Kill Switch may elect to cancel orders for an individual Identifier (e.g., mnemonic) or any group of Identifiers (e.g., all mnemonics within one Member firm). Permissible groups must reside within a single Member firm. See Options 3, Section 17(a).

[87]   See Options 3, Section 17(a)(2)

[88]   See Options 3, Section 17(a)(1).

Identifier(s) until the Member sends a re-entry request to the Exchange.[89]

Due to the lack of demand for the GUI Kill Switch by Members, the Exchange

proposes to decommission this optional tool with the planned technology migration.[90]

With the proposed changes, the Exchange seeks to streamline its product offerings and to

reallocate Exchange resources to other business and risk management initiatives. While

the Exchange will no longer offer this optional risk protection to Members through the

GUI, it will continue to offer this functionality through FIX, Precise, and OTTO.

In addition, all Members may contact the Exchange's market operations staff to

request that the Exchange cancel any of their existing bids, offers, or orders in any series

of options.[91] Furthermore, the Exchange will continue to have System-enforced risk

mechanisms that automatically remove orders for the Member once certain pre-set

thresholds or conditions are met. This includes risk protections such as the market wide

risk protection[92] and cancel on disconnect.[93]

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[89]   See Options 3, Section 17(a)(3).

[90]   No Members have used the GUI Kill Switch for order cancellation in 2022. The
            Exchange will provide prior notice of the decommission to Members via Options
            Trader Alert.

[91]   See Options 3, Section 19.

[92]   The market wide risk protection automatically removes Member orders on the
            Exchange, or across both the Exchange and ISE, in either case as set by the
            Member, when certain firm-set thresholds are met. Once the thresholds are
            triggered, the Member must send a re-entry indicator to re-enter the System. See
            Options 3, Section 15(a)(1)(C).

[93]   When the OTTO or FIX Port detects the loss of communication with a Member'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 Member's affected Client Application and if the Member has elected to
            have its orders cancelled pursuant to Section 18(f) (for OTTO) or Section 18(g)

To effect the proposed decommission of the GUI Kill Switch for order cancellation, the Exchange proposes to amend Options 3, Section 17 by eliminating paragraph (a)(2) and related cross-cites within this rule. The Exchange will also renumber the paragraphs in this rule accordingly.

The Exchange notes that it previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.[94] The Exchange noted in SR-GEMX-2021-09 that Market Makers did not use the GUI Kill Switch to remove their quotes, but rather, utilized other means such as the mass purge request through SQF. In this case, the Exchange similarly notes that no Members use the GUI Kill Switch to cancel their orders but rather, utilize other means like the port Kill Switch through FIX, Precise, and OTTO to purge their existing orders from the System. As such, the Exchange believes that eliminating the GUI Kill Switch all together (including for orders as proposed herein) will streamline the Exchange's risk protection offerings in a manner that reflects Member use.

Data Feeds and TradeInfo

In connection with the technology migration, the Exchange proposes a number of enhancements to its current data feed offerings in Options 3, Section 23(a), many of which are intended to conform with current BX functionality, as specified below.

As set forth in Options 3, Section 23(a)(1), the Exchange offers the Nasdaq GEMX Depth of Market Data Feed ("Depth of Market Feed"), which currently provides

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(for FIX) automatically cancel all orders. See Options 3, Section 18(c) and (d).

[94]   See Securities Exchange Act Release No. 93010 (September 15, 2021), 86 FR 52518 (September 21, 2021) (SR-GEMX-2021-09).

aggregate quotes and orders at the top five price levels on GEMX, and provides

subscribers with a consolidated view of tradable prices beyond the BBO, showing

additional liquidity and enhancing transparency for GEMX traded options. The data

provided for each option series includes the symbols (series and underlying security), put

or call indicator, expiration date, the strike price of the series, and whether the option

series is available for trading on the Exchange and identifies if the series is available for

closing transactions only. In addition, subscribers are provided with total aggregate

quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity,

price, and side (i.e., bid/ask). This information is provided for each of the top five price

levels on the Depth Feed. The feed also provides order imbalances on

opening/reopening.

The Exchange now proposes to no longer provide book information for the top

five price levels, and instead provide full depth-of-book information. As such, the

Exchange will delete language that relates to top five price level information in the rule

text. The Exchange also proposes to add more specificity around what would be

provided in the opening/reopening order imbalance information (namely, the size of

matched contracts and size of the imbalance). The Exchange further proposes a technical

change to correct an erroneous reference to "ISE" within the rule text. The proposed

changes will closely align the information provided on the Exchange's Depth of Market

Feed with that of BX's Depth of Market Feed, except the Exchange will not offer auction

and exposure notifications on its Depth of Market Feed like BX does today.[95] The

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[95]   See BX Options 3, Section 23(a)(1). As discussed below, the Exchange is instead
         proposing to offer these notifications on the Nasdaq GEMX Order Feed. BX does

Exchange already offers auction and exposure notifications on the Nasdaq GEMX Order

Feed as described below.[96] As amended, Options 3, Section 23(a)(1) would provide:

> Nasdaq GEMX Depth of Market Data Feed ("Depth of Market Feed") is a data feed that provides full order and quote depth information for individual orders and quotes on the Exchange book and last sale information for trades executed on the Exchange. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on the Exchange and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance).

As set forth in Options 3, Section 23(a)(2), the Exchange offers the Nasdaq

GEMX Order Feed ("Order Feed"), which currently provides information on new orders

resting on the book (e.g. price, quantity and market participant capacity). In addition, the

feed also announces all auctions. The data provided for each option series includes the

symbols (series and underlying security), put or call indicator, expiration date, the strike

price of the series, and whether the option series is available for trading on GEMX and

identifies if the series is available for closing transactions only. The feed also provides

order imbalances on opening/reopening.

The Exchange now proposes to update the information that would be available on

the Order Feed. In particular, the Exchange would include Attributable Order tags[97] (as

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not have a comparable order feed today.

[96]   BX does not have a comparable order feed today. However, the proposed data elements in the GEMX Order Feed already exist in the rules or technical specifications (for the Attributable Order content) of other options exchanges, as described below.

[97]   As discussed above, an Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. See Options 3, Section 7(h).

provided by the Member) and related data content around displayed order types and

specified order attributes (e.g., OCC account number, give-up information, CMTA

information).[98] The Exchange also proposes to add more specificity around what would

be provided in the opening/reopening order imbalance information (namely, the size of

matched contracts and size of the imbalance). This specifically aligns to the data

elements in both BX's Depth of Market Feed in BX Options 3, Section 23(a)(1) and the

Exchange's proposed Depth of Market Feed in proposed Options 3, Section 23(a)(1).

The Exchange will continue to provide auction notifications on the Order Feed, but will

relocate the existing language to the end of the rule and adopt new content by providing

that the proposed Order Feed will provide exposure notifications as well.[99] As amended,

Options 3, Section 23(a)(2) would provide:

> Nasdaq GEMX Order Feed ("Order Feed") provides information on new orders
> resting on the book (e.g. price, quantity, market participant capacity and
> Attributable Order tags when provided by a Member). The data provided for each
> option series includes the symbols (series and underlying security), displayed

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[98] The Exchange notes that Cboe has similar attributable order functionality in Cboe
Rule 5.6(c) as an order a user designates for display (price and size) that includes
the user's executing firm ID or other unique identifier. While Cboe does not have
a comparable data feed rule, Cboe's technical specifications indicate that it
currently has Participant ID and Client ID tags available on its Multicast PITCH
data feed. See Section 4.6 in
https://cdn.cboe.com/resources/membership/US_EQUITIES_OPTIONS_MULTI
CAST_PITCH_SPECIFICATION.pdf (relating to Participant ID or Client ID as
optionally specified values).

[99] BX's Depth of Market Feed currently has identical content relating to auction and
exposure notifications in BX Options 3, Section 23(a)(1). Exposure notifications
are new with the introduction of routing and the removal of flash functionality in
the Routing Filing. An exposure notification informs the market of an order that
has arrived marketable against an ABBO and has a routing timer pursuant to the
changes introduced to Options 5, Section 4 in the Routing Filing, while an auction
notification is the notification of an auction for a Block, Facilitation, Solicited
Order, or PIM auction.

order types, order attributes (e.g., OCC account number, give-up information, CMTA information), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance), auction and exposure notifications.

As set forth in Options 3, Section 23(a)(3), the Exchange offers the Nasdaq GEMX Top Quote Feed, which currently calculates and disseminates GEMX's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to harmonize certain features of this feed with BX's Top of Market Feed while retaining certain intended differences as specified below.[100] The Exchange first proposes to rename the Nasdaq GEMX Top Quote Feed to the Nasdaq GEMX Top of Market Feed ("Top Feed") to match the BX feed name. In addition, the Exchange proposes to make conforming changes to rename the Top Feed throughout Options 7, Section 6.C(iii) and Section 7.B. The Exchange further proposes to no longer provide information for opening price, daily trading volume, high and low

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[100]   See BX Options 3, Section 23(a)(2).

prices for the day. These are conforming changes that would align the information

provided on the Exchange's Top Feed with information on BX's Top Feed.[101] The

Exchange will continue to provide aggregated size information as a legacy holdover,

which will be different than current BX functionality. Similarly, the Exchange will

continue to provide opening/reopening order imbalance information on its Top Feed

unlike BX. As amended, Options 3, Section 23(a)(3) will provide:

> Nasdaq GEMX Top of Market Feed ("Top Feed") calculates and disseminates
> GEMX's best bid and offer position, with aggregated size (including total size in
> aggregate, for Professional Order size in the aggregate and Priority Customer
> Order size in the aggregate), based on displayable order and quote interest in the
> System. The feed also provides last trade information and for each option series
> includes the symbols (series and underlying security), put or call indicator,
> expiration date, the strike price of the series, and whether the option series is
> available for trading on GEMX and identifies if the series is available for closing
> transactions only. The feed also provides order imbalances on opening/reopening.

As set forth in Options 3, Section 23(a)(4), the Exchange offers the Nasdaq

GEMX Trades Feed ("Trades Feed"), which currently displays last trade information

along with opening price, daily trading volume, high and low prices for the day. The data

provided for each option series includes the symbols (series and underlying security), put

or call indicator, expiration date, the strike price of the series, and whether the option

series is available for trading on GEMX and identifies if the series is available for closing

transactions only. The Exchange proposes to no longer provide information for opening

price, daily trading volume, high and low prices for the day to align to the changes

proposed for the Top Feed described above. As amended, Options 3, Section 23(a)(4)

will provide:

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101   Id.

Nasdaq GEMX Trades Feed ("Trades Feed") displays last trade information. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only.

In addition, the Exchange proposes to no longer offer TradeInfo, which is a user interface set forth in Options 3, Section 23(b)(2) that permits Members to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo. Due to the lack of demand for this interface by Members,[102] the Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced Nasdaq platform with the technology migration.[103] The Exchange notes that FIX, FIX DROP,[104] and the Clearing Trade Interface ("CTI"),[105] which are available to all

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[102]   No Members logged into TradeInfo in 2022.

[103]   The Exchange will provide prior notice of the decommission to all Members through an Options Trader Alert.

[104]   FIX DROP is a real-time order and execution update message that is sent to a Member after an order been received/modified or an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) executions; (ii) cancellations; (iii) modifications to an existing order; and (iv) busts or post-trade corrections. See Options 3, Section 23(b)(3).

[105]   CTI is a real-time cleared trade update message that is sent to a Member after an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement ("CMTA") or The Options Clearing Corporation ("OCC") number; (ii) badge or mnemonic; (iii) account number; (iv) information which identifies the transaction type (e.g. auction type) for billing purposes; and (v) market participant capacity. See Options 3, Section 23(b)(1).

Members, can be used today to obtain order information that is currently available within

TradeInfo, and FIX can be used to cancel orders today.

In connection with its proposal to retire TradeInfo, the Exchange also proposes to

eliminate all references to TradeInfo in Options 7 (Pricing Schedule). Today, as set forth

in Options 7, Section 6.C(ii)(3), the Exchange does not charge any fees for TradeInfo.

With the proposed changes, the Exchange will amend Options 7 to delete Section

6.C(ii)(3) in its entirety.

Optional Risk Protections

The Exchange proposes to introduce optional quantity and notional value checks

in new Options 3, Section 28, entitled "Optional Risk Protections." The proposed

optional order risk protections will be functionally identical to the protections currently

offered by BX.[106] Members may use this voluntary functionality through their FIX or

Precise protocols to limit the quantity and notional value they can send per order and on

aggregate for the day. Specifically, Members may establish limits for the following

parameters, as set forth in proposed subparagraphs (a)(1)-(4):

(1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;

(2) Daily aggregate notional dollar value;

(3) Quantity per order; and

(4) Daily aggregate quantity

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[106]   See BX Options 3, Section 28. While BX's rule does not contain the level of granularity as proposed in the Exchange's rule, including how orders are rejected if any of the optional risk protection values are exceeded, the Exchange understands that BX's optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

Proposed paragraph (b) will provide that Members may elect one or more of the

above optional risk protections by contacting Market Operations and providing a per

order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each

order protection. Members may modify their settings through Market Operations.

Proposed paragraph (c) will provide that the System will reject all incoming aggregated

Member orders for any of the (a)(2) and (a)(4) risk protections after the value configured

by the Member is exceeded. Proposed paragraph (d) will provide that the System will

reject all incoming Member orders for any of the (a)(1) and (a)(3) risk protections upon

arrival if the value configured by the Member is exceeded by the incoming order. The

Exchange notes that the difference in handling between aggregate and individual order

protections is necessary to allow for complete processing of the final order that puts a

Member's configured value over the aggregate values configured. While individual

orders can be directly measured against the configured values for (a)(1) and (a)(3), the

aggregate values must be calculated after complete processing of an order and thus the

rejection of orders begins upon the arrival of the next order after the aggregate values in

(a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming

aggregated orders after the (a)(2) or (a)(4) values configured by the Member have been

exceeded:

Aggregate Quantity Limit = 800.

1. Member enters an Order to Buy 500 – Accepted
2. Member enters an Order to Buy 400 – Accepted (Member did not meet the configured limit of 800 with the first order of 500 at the time Member entered the second order)
3. Member enters an Order to Buy 1 – Rejected (Member already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the Member have been exceeded by the arriving order:

Quantity Per Order Limit = 800.

1. Member enters an Order to Buy 801 – Rejected (Member exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a Member sets a notional dollar value, a Market Order would not be accepted from that Member. This is because notional dollar value is calculated by using an order's specified limit price, and Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX or Precise. Additionally, all of the proposed settings will be firm-level.

b.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[107] in general, and furthers the objectives of Section 6(b)(5) of the Act,[108] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As it relates to the elimination of fees for flash functionality and TradeInfo, the Exchange

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[107]   15 U.S.C. 78f(b).

[108]   15 U.S.C. 78f(b)(5).

believes that its proposal is consistent with Section 6(b) of the Act,[109] in general, and

furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,[110] in particular, in that it

provides for the equitable allocation of reasonable dues, fees, and other charges among

members and issuers and other persons using any facility, and is not designed to permit

unfair discrimination between customers, issuers, brokers, or dealers.

Generally, the Exchange's proposal is intended to add or align certain System

functionality with functionality currently offered on BX in order to provide a more

consistent technology offering across affiliated Nasdaq options exchanges. A more

harmonized technology offering, in turn, will simplify technology implementation,

changes, and maintenance by market participants of the Exchange that are also

participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks

to provide greater harmonization between the rules of the Exchange and its affiliates,

which would result in greater uniformity, and less burdensome and more efficient

regulatory compliance by market participants. As such, the proposal would foster

cooperation and coordination with persons engaged in facilitating transactions in

securities and would remove impediments to and perfect the mechanism of a free and

open market and a national market system. The Exchange believes that more consistent

rules will increase the understanding of the Exchange's operations for market participants

that are also participants on the Nasdaq affiliated options exchanges, thereby contributing

to the protection of investors and the public interest. The proposal also seeks to

memorialize existing functionality and add more granularity in the Exchange's rules to

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[109]   15 U.S.C. 78f(b).

[110]   15 U.S.C. 78f(b)(4) and (5).

describe how existing functionality operates today. The Exchange believes that such

changes would remove impediments to and perfect the mechanism of a free and open

market and a national market system because the proposed changes would promote

transparency in Exchange rules and reducing potential confusion, thereby ensuring that

Members, regulators, and the public can more easily navigate the Exchange's Rulebook

and better understand how options trading is conducted on the Exchange.

Routing Changes

The Exchange believes that the proposed amendments throughout Options 3 and

Options 7 to conform to the Routing Filing is consistent with the Act. As discussed

above, the Routing Filing harmonizes the Exchange's routing functionality with that of

BX.[111] As part of this harmonization, the Routing Filing adopts or harmonizes routing

strategies on the Exchange that are substantially identical to BX, (DNR, FIND, and

SRCH), and eliminates existing Exchange routing functionality that BX does not offer

today (flash functionality and Sweep Orders). The proposed changes to Options 3 and

Options 7 herein will therefore ensure that the Rules conform to the amendments in the

Routing Filing by removing references to flash functionality and Sweep Orders,

eliminating do-not-route orders as an order type and describing it instead as a DNR

routing strategy to harmonize with BX, and also making clear which routing strategies

may now be utilized when submitting an order type. The Exchange believes that the

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[111]   As discussed above, the Routing Filing was filed by ISE to amend ISE Options 5.
        Because GEMX Options 5 incorporates ISE Options 5 by reference, amendments
        to ISE Options 5 are accordingly integrated as amendments to GEMX Options 5.
        See supra note 3.

proposed changes will bring greater clarity to the Rulebook, which would benefit market participants and investors by reducing potential confusion.

The Exchange's proposal to remove pricing related to flash functionality from Options 7 is reasonable, equitable, and not unfairly discriminatory because flash functionality would no longer be available to any Member. It is reasonable to remove the fees related to flash orders and the references to flash orders from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. Additionally, it is equitable and not unfairly discriminatory to remove the fees related to flash orders and the references to flash orders from the Pricing Schedule because no Member would be able to utilize the flash functionality once it is removed from the System.

Bulk Message

The Exchange believes that its proposal to memorialize its bulk message functionality is consistent with the Act as it will codify existing functionality, thereby promoting transparency in the Exchange's rules and reducing any potential confusion.[112] 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 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. As noted above, other options exchanges

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[112]   As discussed above, this existing functionality is currently described in the Exchange's publicly available technical specifications. See supra note 13.

like Cboe currently offer similar bulk messaging functionality that allow their market
participants to submit block quantity quotes in a single electronic message.[113]

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.[114] Bulk message functionality provides Market
Makers with a means to help them satisfy these obligations.

Order Types

The Exchange believes that the proposed changes to the rules governing
Exchange order types are consistent with the Act. As discussed above, the proposed
changes consist of several functional enhancements to align the Exchange's order types
to existing BX order types, and rule adjustments that add more specificity and clarity to
existing order types.

Market Orders

The Exchange believes that the proposed changes to the definition of Market
Orders in Options 3, Section 7(a) are consistent with the Act. The proposed intra-day
cancel timer feature mirrors existing BX functionality in BX Options 3, Section 7(a)(5),
and would provide Members with additional flexibility and control to bring the Market

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[113]   See supra note 16.

[114]   See Options 2, Sections 4 and 5.

Order back to the Member so they can get an execution on another venue by canceling

unexecuted Market Orders after a certain period of time. The Exchange believes it is

appropriate to offer this feature intra-day because the Exchange already has a separate

opening delay timer that provides protection to the market during the Opening Process as

discussed above.

Intermarket Sweep Orders

The Exchange believes that the proposed changes to the definition of ISOs in

Options 3, Section 7(b)(5) are consistent with the Act. As discussed above, the proposed

changes are intended to add more granularity and more closely align the level of detail in

the ISO rule with BX's ISO rule in BX Options 3, Section 7(a)(6) by specifying how the

Exchange would handle ISOs, including how ISOs may be submitted and when. As

such, the Exchange believes that its proposal will promote transparency in the

Exchange's rules and consistency across the rules of the Nasdaq affiliated options

exchanges.[115]

Furthermore, the proposed changes do not amend current ISO functionality except

for the proposed stipulation that ISOs must have a TIF designation of IOC. Today,

Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires

on the day it is entered. The Exchange believes it is appropriate to no longer allow non-

IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple

exchanges in an effort to post the balance of an order without locking an away market.

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[115]   As noted above, BX's ISO rule also currently states that "ISOs may be entered on
          the Order Book or into the PRISM Mechanism pursuant to Options 3, Section
          13(ii)(K)." The Exchange will file a separate rule change to add similar language
          as BX relating to how ISOs may be entered on the Exchange.

The Exchange therefore believes that ISOs have a limited purpose and should be

cancelled if they do not execute or do not entirely execute.   This is also consistent with

how BX currently handles ISOs in that BX only allows ISOs to be entered as IOC.

All-or-None Orders

The Exchange believes that the proposed changes to the definition of AON Orders

in Options 3, Section 7(c) are consistent with the Act. As discussed above, the Exchange

is memorializing current System behavior by specifying how AON Orders will execute

against multiple, aggregated orders to align with the level of detail in BX Options 3,

Section 7(a)(4)(A). The proposed description of the handling of AON Orders is

consistent with the Exchange's allocation methodology in Options 3, Section 10 by

making clear that because of the size contingency of the AON Order (i.e., executed in its

entirety or not at all), those orders must be satisfied simultaneously to avoid any priority

conflict on the order book, which considers current displayed NBBO prices to avoid

locked and crossed markets as well as trade-throughs. Finally, the proposed changes to

add that AON Orders may not be submitted during the Opening Process will better

articulate current System behavior, and aligns to the level of detail currently in BX's

AON rule at BX Options 3, Section 7(a)(7).

Stop and Stop Limit Orders

The Exchange believes that the proposed changes to the definition of Stop Orders

and Stop Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent

with the Act. The Exchange is proposing to codify current System behavior by adding

that Stop Orders and Stop Limit Orders will be cancelled if they are immediately

electable upon receipt. As discussed above, the purpose of each of these order types is to

not execute upon entry, and instead rest in the System until the market reaches a certain

price level, at which time the order could be executed. A Stop Order or Stop Limit Order

that is immediately electable upon receipt would therefore negate the purpose of this

order type, so the Exchange believes it is appropriate to cancel such orders to ensure that

Members are able to use these order types to achieve their intended purpose. As noted

above, the proposed changes to codify current Stop and Stop Limit Order handling will

align the Exchange's rules with Phlx's Stop and Stop Limit Order rules.[116]

The Exchange believes that the proposed changes to specify current System

functionality that Stop and Stop Limit Orders may only be entered into FIX or Precise

will make clear that these order types are only available to be entered through two of the

three order entry protocols offered by the Exchange (i.e., FIX, Precise, and OTTO). As

such, the proposed changes will promote transparency in the Exchange's rules and reduce

any potential confusion.

Cancel and Replace Orders

The Exchange believes that the proposed changes to the rule governing Cancel

and Replace Orders would promote clarity and make the rules easier to navigate. As

discussed above, these are non-substantive changes to relocate the rule from

Supplementary Material .02 to Options 3, Section 7 into the main body of the order types

rule at Options 3, Section 7(f), updating incorrect cross-cites therein, and adding more

granularity around how the Exchange will treat the cancellation and replacement of

Reserve Orders.

Reserve Orders

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[116]   See supra notes 34 and 36.

The Exchange believes that the proposed changes to the Reserve Order rule at Options 3, Section 7(g) are consistent with the Act. The Exchange is proposing to add more granularity around how Members may elect to refresh the display quantity for the Reserve Order. The Exchange notes that the new rule text does not have any impact on the priority rules of the displayed or non-displayed portion of the Reserve Order. This refresh feature for Reserve Orders is intended to provide more flexibility and opportunities for Members to add displayed liquidity to the Exchange, which, in turn, benefits all market participants through more trading opportunities and enhanced price discovery. As discussed above, the proposed changes do not amend current functionality, but rather is intended to promote transparency around the current operation of Reserve Orders. Further, the Exchange believes that the non-substantive changes in the Reserve Order rule to renumber and reformat the paragraphs therein, and make corrective changes as described above, are consistent with the protection of investors and the public interest because they will simply make the Exchange's rules easier to navigate, thereby reducing any potential confusion. As noted above, other options exchanges like Cboe currently offer Reserve Orders that have similar refresh features.[117]

Attributable Orders

The Exchange believes that it is consistent with the Act to delete existing rule text in Options 3, Section 7(h), which currently indicates that Attributable Orders may be available for specified classes of securities, and to make a corrective change to "a<u>n</u> Options Trader Alert." Because Attributable Orders are available for all classes of

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[117]   <u>See</u> <u>supra</u> note 39.

securities today, the Exchange is deleting this language as inaccurate. The Exchange

believes that the proposed changes will promote transparency in the Exchange's rules.

Customer Cross Orders

The Exchange believes that the non-substantive amendment in Options 3, Section

7(i) to add that Customer Cross Orders may trade in accordance with Options 3, Section

12(a) is consistent with the protection of investors and the public interest because the

proposal will simply add a cross reference in the Customer Cross Order rule to Section

12(a), which currently describes in detail how this order type would execute on the

Exchange, thereby adding clarity to how Customer Cross Orders function today.

Qualified Contingent Cross Orders

The Exchange believes that the proposed changes to the QCC Order rule in

Options 3, Section 7(j) to add a reference to "QCC" and to provide that QCC Orders will

trade in accordance with Options 3, Section 12(c) are consistent with the Act because the

changes are merely intended to add greater clarity to how QCC Orders function today.

The Exchange further believes that specifying that QCC Orders may only be entered

through FIX or Precise will better articulate current System behavior, and will make clear

that QCC Orders are available to be entered through only two of the three order entry

protocols currently offered by the Exchange (i.e., FIX, Precise, and OTTO), thereby

reducing any potential confusion.

Preferenced Orders

The Exchange believes that its proposal to add a definition of Preferenced Orders

in Options 3, Section 7(l) is consistent with the Act. While Preferenced Orders are

currently described in Options 2, Section 10, the Exchange believes that it would be

useful to have order types centralized within one rule to make the Rulebook easier to navigate for market participants. As noted above, Phlx similarly lists out Directed Orders (akin to Preferenced Orders) in its order types rule at Phlx Options 3, Section 7(b)(11).

Add Liquidity Orders

The Exchange believes that the proposed changes to the ALO rule in Options 3, Section 7(n) are consistent with the Act. As discussed above, the Exchange is enhancing current ALO functionality to reflect that the Exchange will handle ALOs in a consistent manner with the new continuous re-pricing mechanism that is being proposed concurrently in the Re-Pricing Filing as proposed Options 3, Section 5(d) in situations where the ALO would not lock or cross an order or quote on the System, but would lock or cross the NBBO.[118] The Exchange therefore believes that the proposed changes will make clear how the Exchange will handle ALOs under the new re-pricing mechanism. The ALO order type was adopted to provide market participants greater control over the circumstances in which their orders are executed. As noted above, the purpose of an ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange continues to believe that ALOs, as amended under this proposal, will continue to accommodate this strategy. The proposed order handling for ALOs is consistent with how ALOs are handled on BX today.[119]

The Exchange also believes that adding "or quotes" in the ALO rule at Options 3, Section 7(n) is consistent with the Act. Today, if at the time of entry, an ALO would

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[118]   See supra note 43.

[119]   See BX Options 3, Section 7(a)(12).

lock or cross one or more non-displayed orders or quotes on the Exchange, the ALO will

be cancelled or re-priced in the manner specified within the ALO rule. Adding this rule

text will bring greater clarity around current ALO behavior.

The Exchange further believes that the proposed addition that ALOs may only be

submitted when an options series is open for trading will make clear ALOs will not be

accepted during the Opening Process as the order book is not available. The proposed

changes codify existing System behavior, and will therefore promote transparency in the

Exchange's rules.

Opening Sweep

The Exchange believes that the proposed changes to the Opening Sweep rule in

Options 3, Section 7(t) are consistent with the Act. As discussed above, the Exchange is

codifying current System behavior and providing additional context to the rule in a

manner that is consistent with Phlx's Opening Sweep rule in Phlx Options 3, Section

7(b)(6). The Exchange therefore believes that the proposed changes promote greater

transparency in the Exchange's rules and consistency across the rules of the Nasdaq

affiliated options exchanges. Specifically, because an Opening Sweep is an IOC order

submitted by a Market Maker during the Opening Process, the Exchange is making clear

that Opening Sweeps are entered though SQF in the proposed rule text. The Exchange

also believes that it is appropriate to specify that Opening Sweeps are not subject to any

risk protections in Options 3, Section 15 (except Automated Quotation Adjustments)

because the Opening Process itself has boundaries (notably, the Quality Opening Market

and the Opening Quote Range) within which orders will be executed. Finally, the

proposed language relating to Opening Sweep participation in the Opening Process and

cancellation upon the open merely provides additional context in the order type rule. As

noted above, Opening Sweeps are already described in the opening rule today in Options

3, Section 8, and apply only during the Opening Process.

Time in Force

The Exchange believes that the proposed changes to the TIF rules are consistent

with the Act. As discussed above, the Exchange believes that certain existing

functionality currently described as an "order type" in Options 3, Section 7 would be

more precisely described as a TIF attribute that designates the basic parameters of an

order type. Relocating and centralizing the existing TIF rules into proposed

Supplementary Material .02 to Options 3, Section 7 will therefore clearly delineate these

order attributes and make the proposed rules easier to navigate. Codifying the definition

of "TIF" in proposed Supplementary Material .02 will add greater clarity and

transparency to the Exchange's rules in a manner consistent with BX Options 3, Section

7(b).

The Exchange believes that the adjustments in proposed Supplementary Material

.02(a) to Options 3, Section 7 to add that Day orders may be entered through FIX, OTTO,

or Precise will add further granularity and clarity to the Exchange's rules. The proposed

changes provide additional detail about current functionality in a manner that is

consistent with the level of detail in BX's Day order.[120]

The Exchange believes that the adjustments to the relocated GTC and GTD rules

in proposed Supplementary Material .02(b) and (c) will add further granularity and clarity

to how these TIFs operate today. The Exchange further believes that aligning the level of

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[120]   See supra note 51.

detail in the GTD rule to the GTC rule, as described above, is appropriate because these two TIFs are meant to be functionally similar except the manner in which they persist in the System.

The Exchange believes that the proposed changes to the relocated IOC rule in proposed Supplementary Material .02(d) will promote greater transparency in the Exchange's rules by providing more granularity to current IOC functionality. Further, the changes conform the Exchange's IOC rule to BX's IOC rule, thereby promoting consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, the proposed changes to remove the word "limit" will make clear that IOC orders may be sent as either a Market or Limit Order today, identical to BX IOC orders.[121] The proposed changes to state that IOC orders are not eligible for routing, and that IOC orders may be entered through FIX, OTTO, Precise, or SQF, will codify current IOC behavior in a manner that is consistent with BX's IOC rule.[122]

As it relates to the proposed changes to memorialize the various risk protections that are excluded from applying to Market Maker IOC orders entered through SQF, the Exchange believes this is appropriate because only Market Makers utilize SQF to enter IOC orders. As discussed above, Market Makers are professional traders with more sophisticated infrastructures than other market participants, and are able to manage their risk through their own risk settings in addition to the risk protections required by the Exchange. The Exchange will continue to apply the specified risk protections on IOC orders entered through FIX, OTTO, and Precise, which are used by the other market

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[121]   See supra note 52.

[122]   See supra notes 53 – 54.

participants. The proposed changes will harmonize the Exchange's IOC rule with BX's

IOC rule.[123] Further, the proposal to add substantially similar exclusionary language into

the SQF rule itself at Supplementary Material .03(c) to Options 3, Section 7 will make

clear that these risk protections will not apply to IOC orders entered through SQF.

Specifying in the proposed IOC rule that orders entered into the Exchange's

various auction and crossing mechanisms are considered to have a TIF of IOC

memorializes current System behavior, and is intended to bring greater transparency in

how these order types are handled today. As noted above, BX currently has substantially

similar language in its IOC rule for BX PRISM orders in BX Options 3, Section 7(b)(2).

Lastly, the Exchange believes that the adjustments to the relocated OPG rule in

proposed Supplementary Material .02(e) to Options 3, Section 7 will add granularity and

clarity to how OPG orders operate, and will conform the OPG rule with the level of detail

currently in BX's OPG rule in BX Options 3, Section 7(b)(1). As discussed above, the

Exchange is proposing to enhance OPG functionality to allow both Market and Limit

OPG orders whereas today, only Limit OPG orders are allowed. This harmonizes OPG

functionality with BX OPG functionality. The other modifications to replace "opening

rotation" with "Opening Process," stating OPG orders may not route, and indicating that

OPG orders are not subject to the protections listed in Options 3, Section 15 (except Size

Limitation) all memorialize current OPG behavior, and align to the current BX OPG rule.

As discussed above, the Exchange does not apply any of the risk protections in Options 3,

Section 15 (except Size Limitation) because the Opening Process itself has boundaries

within which orders will be executed.

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[123]   See supra notes 58 – 59.

Opening Process

The Exchange believes that the proposed changes to the Opening Process in Options 3, Section 8 are consistent with the Act. As discussed above, the Exchange is proposing to remove the current limitation that only allows Public Customers interest to route during the opening, and will instead allow all market participant interest to route. The proposed changes will serve to more closely align the Exchange's Opening Process with BX's Opening Process. Like BX, the Exchange believes that it will be beneficial to provide all market participants with the opportunity to have their interest executed on away markets during the Opening Process. The Exchange further believes that the related changes to remove references to "Public Customer" throughout Options 3, Section 8, and to update the cross-cite currently pointing to the Priority Customer priority overlay to the more general priority rule, will add clarity, transparency, and internal consistency to Exchange rules regarding the proposed handling of routable interest during the Opening Process.

The Exchange believes that its proposal to no longer round in the direction of the previous trading day's closing price and simply round up to the MPV, if the mid-point of the highest and lowest of the Potential Opening Prices is not expressed as a permitted MPV, will simplify and bring greater transparency to the Opening Process, to the benefit of investors. 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. The Exchange believes this may promote greater efficiency in the marketplace especially in view of the continued growth in the number of options today.

The Exchange further believes that the proposed changes to replace "are marketable against the ABBO" with "cross the ABBO" will better articulate how the Exchange currently determines the OQR boundaries in the scenario specified in Options 3, Section 8(i)(3). Lastly, the Exchange believes that the non-substantive change in paragraph (a)(1)(2) of Options 3, Section 8 will bring greater clarity to the Rulebook.

Auction and Crossing Mechanisms

Facilitation and Solicited Order Mechanisms

The Exchange believes that its proposal to relocate the rule text relating to Responses from Supplementary Material .02 to Options 3, Section 11 into the introductory paragraph of Options 3, Section 11, and adding that Responses can be modified, is consistent with the Act. The Exchange is relocating this language into the introductory paragraph of Options 3, Section 11 after the definition of "Response" for better readability. The proposed change to add "or modified" to indicate that Responses may be canceled or modified any time prior to execution better aligns the rule text to current System behavior.

Crossing Orders

The Exchange believes that the non-substantive change to the description of QCC Orders in Options 3, Section 12(c)(2) will bring greater clarity to the Rulebook.

Price Improvement Mechanism

The Exchange's proposal to amend Options 3, Section 13(b)(4) to clarify the current rule text by adding the words "or modified" after "canceled" is consistent with the Act because the additional text will make clear that a Crossing Transaction may not be modified unless the Counter-Side Order is being improved during the exposure period.

The Exchange's proposal to add clarifying rule text within Options 3, Section 13(b)(5) which states, "Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected" is consistent with the Act because it will bring greater clarity to when a Crossing Transaction is currently eligible to initiate a PIM. The PIM considers both the NBBO and local book for its entry price validation and therefore requires an opening for the PIM to begin.

The Exchange's proposal to amend the current PIM functionality within Options 3, Section 13(c)(3) to permit Improvement Orders to be canceled or modified is consistent with the Act. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX today within Options 3, Section 13(ii)(a)(8). Today, during the exposure period, Improvement Orders may not be canceled and Improvement Orders may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order would be handled outside of the auction process. For Improvement Orders through SQF, the modification and cancellation of such orders will be handled by sending new Improvement Orders that overwrite the existing Improvement Order with updated price/quantity instructions. Improvement Orders are not visible to other auction participants, including the Agency Order. The Exchange believes that providing responders with flexibility to cancel or modify their Improvement Orders may encourage market participants to respond to more auctions, including PIM.

The proposal to amend Options 3, Section 13(d)(5) to permit an auction to automatically terminate upon the occurrence of a trading halt with execution solely with the Counter-Side Order is consistent with the Act. This functionality would be similar to rule text within BX Options 3, Section 13(ii)(C). The Exchange believes that utilizing the price of the Counter-Side Order to execute the Crossing Transaction promotes just and equitable principles of trade, and fosters cooperation and coordination with persons engaged in facilitating transactions in securities since the Counter-Side Order has guaranteed that an execution will occur at the same price as the Crossing Transaction, or better, prior to the trading halt, and Improvement Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to execute the Crossing Transactions, and the Counter-Side Order is the appropriate contra-side.[124]

The Exchange believes that the proposed System change to adopt a new same side execution price check for PIM in new subsection (d)(6) of Options 3, Section 13 is consistent with the Act. As discussed above, this feature would be functionally identical to BX PRISM in BX Options 3, Section 13(ii)(I). Like BX, the proposed price check is designed to ensure that the Exchange would not trade at prices that would lock or cross interest on the same side of the market as the Agency Order where limit orders have rested and obtained priority to execute at that price. In the event where a limit order arrives on the same side of the market as the Agency Order and is at the same or better price than the initiating Crossing Transaction price, the Exchange would execute the entire PIM transaction at the initiating Crossing Transaction price. The execution takes

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[124] The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market.

place at this price because the PIM is guaranteed an execution and the PIM agency side instructions would not allow an execution to take place at a higher (lower) price than submitted for a buying (selling) agency side PIM order. Considering that the limit order has arrived either at or better on the same side as the Agency Order than the agency side price, the initiating Crossing Transaction price is the only price at which the guaranteed execution can take place.

Finally, the proposal to amend Supplementary Material .02 to Options 3, Section 15 to add a sentence which provides, "It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction," is consistent with the Act. BX has a similar prohibition within Options 3, Section 13(iii). The proposed new rule is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, by providing guidance to Members where certain behavior within a PIM will not be considered a bona fide transaction.

Order Price Protection

The Exchange believes that its proposal to replace its current Limit Order Price Protection with a similar "fat finger" check called Order Price Protection in Options 3, Section 15(a)(1)(A) is consistent with the Act. The proposed OPP would similarly prevent the execution of limit orders at prices outside pre-set numerical or percentage parameters, and is designed to prevent limit orders entered at clearly unintended prices from executing in the System to the detriment of market participants. The proposed risk

protection is also functionally similar to BX's OPP in BX Options 3, Section 15(a)(1), and therefore is not novel.[125] Similar to BX, the Exchange believes that the proposed fixed dollar amount and percentage parameters will protect against erroneous executions, while also allowing orders to execute within a reasonable range.

The Exchange believes that using the Reference BBO (i.e., better of the NBBO or the internal market BBO) to calculate the proposed OPP, identical to current BX OPP functionality, will similarly protect investors and the public interest where the internal market BBO is better than the NBBO.

The Exchange further believes that its proposal to add language allowing Exchange discretion to temporarily deactivate OPP on an intra-day basis is consistent with the Act. BX has identical language today in BX Options 3, Section 15(a)(1)(A)(i), and similar to BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (e.g., if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and orderly market. This will promote just and equitable principles of trade and ultimately protect investors.

Post-Only Quoting Protection

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[125]   As noted above, the Exchange is proposing to adopt an OPP rule that more accurately describes the proposed functionality than BX's current OPP rule, so BX will align its current OPP rule to the Exchange's proposed rule text in a separate rule filing.

The Exchange's proposal to adopt a new Post-Only Quote Configuration in

Options 3, Section 15(a)(3)(C) to permit Market Makers to prevent their quotes from

removing liquidity from the Exchange's order book promotes equitable principles of

trade and protects investors and the public interest by enhancing the risk

protections available to Market Makers. This optional risk protection would enable

Market Maker to better manage their risk when quoting on the Exchange. As noted

above, BX offers identical functionality today in BX Options 3, Section 15(c)(3).

The proposed risk protection allows Market Makers the ability to avoid removing

liquidity from the Exchange's order book if their quote would otherwise lock or cross any

resting order or quote on the Exchange's order book upon entry, thereby protecting

investors and the general public as Market Makers transact a large number of orders on

the Exchange and bring liquidity to the marketplace. Market Makers would utilize the

proposed risk protection to avoid unintentionally taking liquidity with resting interest[126]

on the order book. As a result of taking liquidity, Market Makers would incur a taker fee

that may impact the Market Maker's ability to provide liquidity and meet quoting

obligations. Market Makers are required to add liquidity on the Exchange and, in turn,

are rewarded with lower pricing[127] and enhanced allocations.[128] Specifically, the risk

protection would permit Market Makers to add liquidity only and avoid removing resting

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[126]   As noted above, this would include any re-priced orders as described in the Re-
         Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in
         proposed Options 3, Section 7(n), and any re-priced quotes as described in
         Options 3, Section 4(b)(6). As discussed above, ALOs may re-price.

[127]   See Options 7, Section 3.

[128]   See Options 3, Section 10.

interest on the order book, which will lead to enhanced liquidity on the Exchange and in turn will benefit and protect investors and the public interest through the potential for greater volumes of orders and executions on the Exchange.

The Exchange does not believe that introducing this Post-Only Quote Configuration will unfairly discriminate among market participants. Today, all Members may utilize the existing Add Liquidity Order type to prevent orders from removing liquidity from the Exchange's order book upon entry. The Post-Only Quote Configuration is available to Market Makers only as a risk protection. Unlike other market participants, Market Makers have certain obligations on the market, such as requirements to provide continuous two-sided quotes on a daily basis[129] and are subject to various obligations associated with providing liquidity on the market.[130] Market Makers are liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted to allow them to manage their risk more effectively.[131] The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on the Exchange and protects investors and the public interest, thereby enhancing market structure by allowing Market Makers to add liquidity only. Greater

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[129]   See Options 2, Section 5(e).

[130]   See Options 2, Section 4.

[131]   Options 3, Section 15(a)(3) currently sets forth the Anti-Internalization and Quotation Adjustments Protections that are available today to Market Makers.

liquidity benefits all market participants by providing more trading opportunities and

attracting greater participation by Market Makers. Also, an increase in the activity of

Market Makers in turn facilitates tighter spreads.

Kill Switch

The Exchange does not believe that the proposed decommission of the GUI Kill

Switch for order cancellation will affect the protection of investors or the public interest

or the maintenance of a fair and orderly market because no Members have used the GUI

Kill Switch risk protection in 2022.[132] The Exchange does not charge any fees for the

GUI Kill Switch. In addition, the Exchange notes that the use of this tool is completely

optional, and the Exchange will continue to offer substantially similar Kill Switch

functionality through FIX, Precise, and OTTO. As set forth in the Kill Switch rule, the

GUI Kill Switch allows for the cancellation and restriction of orders for the requested

Identifier(s) on a user or group level, whereas the port Kill Switch allows for cancellation

and restriction of orders for the requested Identifier(s) on a user level.[133] While the GUI

Kill Switch had more optionality around how Members may combine the Kill Switch

request by Identifier(s), no Members have used the GUI Kill Switch risk protection this

year. Furthermore, Members will retain the ability to contact market operations staff to

manually purge their orders from the market. In addition, the Exchange will continue to

implement System-enforced risk mechanisms that automatically remove orders for the

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[132]   As noted above, the Exchange will provide prior notice of the decommission to all
          Members via Options Trader Alert.

[133]   See Options 3, Section 17(a)(1) and (2).

Member once certain pre-set thresholds or conditions are met (i.e., market wide risk

protection and cancel on disconnect).

Also, the Exchange believes that the low usage rate for the GUI Kill Switch does

not warrant the continuous resources necessary for System support of such tools. As a

result, the Exchange believes that the proposal will remove impediments to and perfect

the mechanism of a free and open market and a national market system by allowing the

Exchange to reallocate System capacity and resources currently used to maintain this

functionality to the development and maintenance of other business initiatives and risk

management products.

As noted above, the Exchange previously amended its rules to decommission the

quote removal Kill Switch that was available to Market Makers through the GUI.[134]

Similar to the GUI Kill Switch for quote removal, the Exchange has found that no

Members use the GUI Kill Switch to cancel their orders, but rather, utilize other means to

purge their existing orders from the System. The Exchange therefore believes that

eliminating the GUI Kill Switch all together (including for orders as proposed herein)

will streamline the Exchange's risk protection offerings in a manner that reflects Member

use.

Data Feeds and Trade Information

The Exchange believes that the proposed changes to the current data feed

offerings in Options 3, Section 23(a) are consistent with the Act. Specifically, the

Exchange believes that the proposed changes to its Depth of Market Feed to provide full

depth-of-market information will serve to more closely align the information provided on

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[134]   See supra note 94.

the Exchange's Depth of Market Feed with that of BX's Depth of Market Feed in BX

Options 3, Section 23(a)(1), thereby ensuring a more consistent technology offering

across the Nasdaq affiliated options exchanges. The Exchange also believes that the

modified Depth of Market Feed will help to protect a free and open market by providing

additional data to the marketplace. The Exchange further believes that the proposed

changes to add more specificity around what would be provided in the opening/reopening

order imbalance information, and to correct an erroneous reference to "ISE" in the Depth

of Market Feed rule will promote transparency and clarity in the Exchange's rules.

The Exchange believes that the proposed changes to the Order Feed around what

type of information would be available on this data feed offering, as further described

above, will promote clarity and transparency in the Exchange's rules. Furthermore, the

proposed data elements in the Order Feed are based on data elements that currently exist

on other markets. For instance, the specificity around what would be provided in the

opening/reopening order imbalance information, as well as the auction and exposure

notifications are identical to the content within BX's Depth of Market Feed in BX

Options 3, Section 23(a)(1). As noted above, the Attributable Order content is similar to

the data elements on Cboe's current multicast PITCH feed.[135]

The Exchange believes that the proposed changes to the existing Top Quote Feed

to rebrand into the Top Feed, to no longer provide information for opening price, daily

trading volume, and high and low prices for the day, will serve to further align the

Exchange's Top Feed with BX's Top Feed in BX Options 3, Section 23(a)(2), thereby

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[135]   See supra note 98.

ensuring a more consistent technology offering across the Nasdaq affiliated options exchanges.

The proposed changes to the Trades Feed to no longer provide information for opening price, daily trading volume, and high and low prices for the day are intended to align to the proposed changes to the Top Feed described above. The Exchange believes that removing this language will promote clarity and transparency in the Exchange's rules.

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from Members.[136] The Exchange does not assess a fee for TradeInfo. As noted above, Members use FIX, FIX DROP, and CTI to obtain order information currently available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

The Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 6.C(ii)(3) in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any Member. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is

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[136]   As noted above, the Exchange provided notice of the decommission to all Members through an Options Trader Alert. See Options Trader Alert #2022-29.

removing this functionality from its Rulebook. As discussed above, the Exchange does

not assess a fee for TradeInfo today. Additionally, it is equitable and not unfairly

discriminatory to remove the references to TradeInfo pricing from the Pricing Schedule

because no Member would be able to utilize this functionality once it is removed from

the System.

Optional Risk Protections

The Exchange believes that introducing the optional quantity and notional value

risk protections as described above will protect investors and the public interest, and

maintain fair and orderly markets, by providing market participants with another tool to

manage their order risk. As noted above, BX offers functionally identical optional risk

protections in BX Options 3, Section 28.[137] In addition, providing Members with more

tools for managing risk will facilitate transactions in securities because Members will

have more confidence that risk protections are in place. As a result, the new functionality

has the potential to promote just and equitable principles of trade.

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

The Exchange does not believe that the proposed rule change will impose any

burden on competition not necessary or appropriate in furtherance of the purposes of the

Act. The Exchange operates in a competitive market and regularly competes with other

options exchanges for order flow. As discussed above, the Exchange is re-platforming its

System in connection with the technology migration to enhanced Nasdaq functionality,

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[137]   As noted above, while the proposed rule text in Options 3, Section 28 adds more
          granularity, including around how orders are rejected when the value thresholds
          for the options risk protections are exceeded, the Exchange understands that the
          BX optional risk protections operate in the same manner. In addition, BX's rule
          does not include Precise as this order entry port is not available on BX today.

which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform.

As it relates to the elimination of fees for flash functionality and TradeInfo from Options 7, the Exchange believes that its proposal does not impose an undue burden on competition because the flash functionality and TradeInfo would no longer be available to any Members.

The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act. As it relates to bulk messaging for quotes as proposed in Options 3, Section 4(b)(3), the Exchange notes that Cboe similarly allows for bulk messaging in Cboe Rule 1.1, except Cboe also allows bulk messaging for orders, unlike the Exchange. As it relates to the proposal in Options 3, Section 7(g)(4) to codify the refresh features into the Exchange's Reserve Order rule, the Exchange notes that Cboe's Reserve Order functionality has similar refresh features in Cboe Rule 5.6(c). As it relates to the proposal in Options 3, Section 23(a) to add Attributable Order content in the Order Feed, Cboe currently has similar data elements available on its Multicast PITCH feed.[138]

The proposed rule changes are based on the following rules of the Nasdaq affiliated exchanges:

- The Market Order proposal in Options 3, Section 7(a) will be materially identical to BX's Market Orders in BX Options 3, Section 7(a)(5).

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[138]   See supra note 98.

- The ISO proposal in Options 3, Section 7(b)(5) will be substantially similar to BX's ISO in BX Option 3, Section 7(a)(6). Unlike BX, the Exchange's ISO proposal will not refer to how ISOs may be entered on the Exchange as the Exchange intends address that in a separate rule filing.

- The Exchange's AON proposal will be substantially similar to BX's Contingency Order rule in BX Options 3, Section 7(a)(4)(A) (except BX's rule also describes Minimum Quantity Orders, which the Exchange does not offer today) and BX's AON rule in BX Options 3, Section 7(a)(7).

- The Stop Order proposal in Options 3, Section 7(d) will be substantially similar to Phlx Options 3, Section 7(b)(4), except Phlx does not currently explicitly state that Phlx Stop Orders may only be entered through FIX or Precise because Phlx only offers one order entry protocol (FIX), unlike the Exchange, which offers three (FIX, Precise, and OTTO).

- The Stop Limit Order proposal in Options 3, Section 7(e) will be substantially similar to Phlx Options 3, Section 7(b)(4)(A), except Phlx does not currently explicitly state that Phlx Stop Limit Orders may only be entered through FIX or Precise for the same reasons stated for Stop Orders above.

- The Preferenced Order proposal in Options 3, Section 7(l) will be materially identical to Phlx's Directed Order rule in Phlx Options 3, Section 7(b)(11).

- The ALO proposal in Options 3, Section 7(n) will be materially identical to BX ALOs in BX Options 3, Section 7(a)(12).

- The Opening Sweep proposal in Options 3, Section 7(t) will be materially identical to the Phlx Opening Sweep in Phlx Options 3, Section 7(b)(6).

- The Day order proposal in Supplementary Material .02(a) to Options 3, Section 7 will be substantially similar to BX Options 3, Section 7(b)(3), except BX's rule does not refer to OTTO or Precise because BX does not offer OTTO or Precise functionality today.

- The IOC proposal in Supplementary Material .02(d) to Options 3, Section 7 will be substantially similar to BX's IOC in BX Options 3, Section 7(b)(2), except the BX rule does not refer to OTTO or Precise as BX does not offer these features today.

- The OPG proposal in Supplementary Material .02(e) to Options 3, Section 7 will be materially identical to BX's OPG in BX Options 3, Section 7(b)(1).

- The Opening Process proposal in Options 3, Section 8 to allow all market participant interest to route will be identical to BX's Opening Process in BX Options 3, Section 8.

- The following proposed changes to PIM are based on BX PRISM: (1) proposed Options 3, Section 13(b)(5) will be materially identical to BX Options 3, Section 13(i)(E); (2) proposed Options 3, Section 13(c)(3) will be materially identical to BX Options 3, Section 13(ii)(A)(8); (3) proposed Options 3, Section 13(d)(5) will be functionally similar to BX Options 3, Section 13(ii)(C); (4) proposed Options 3, Section 13(d)(6) will be functionally similar to BX Options 3, Section 13(ii)(I); and (5) proposed Supplementary Material .02 to Options 3, Section 13 will be materially identical to BX Options 3, Section 13(iii).

- The proposed OPP risk protection in Options 3, Section 15(a)(1)(A) will be functionally similar to BX OPP in BX Options 3, Section 15(a)(1).[139]

- The proposed Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) will be functionally identical to the BX Post-Only Quote Configuration in BX Options 3, Section 15(c)(3).

- The Depth of Market Feed proposal in Option 3, Section 23(a)(1) will be substantially similar to the BX Depth of Market Feed in BX Options 3, Section 23(a)(1), except the Exchange will not offer auction and exposure notifications on its Depth of Market Feed like BX does today.

- The Order Feed proposal in Options 3, Section 23(a)(2) will contain data elements that are identical to those on BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), specifically around what would be provided in the opening/reopening order imbalance information (i.e., the size of matched contracts and size of the imbalance), and auction and exposure notifications.

- The Top Feed proposal in Options 3, Section 23(a)(3) will be substantially similar to the BX Top Feed in BX Options 3, Section 23(a)(2), except the Exchange will continue to provide aggregated size information unlike BX.

- The proposed optional quantity and notional value risk protections in Options 3, Section 28 will be functionally identical to the protections in BX Options 3, Section 28.[140]

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[139]   As noted above, BX will file a separate rule change to conform its OPP rule to the Exchange's proposed rule.

[140]   As noted above, while the proposed rule text in Options 3, Section 28 adds more

The Exchange reiterates that the proposed rule change is being proposed in the context of the technology migration to enhanced Nasdaq functionality. The Exchange further believes the proposed rule change will benefit Members by providing a more consistent technology offering, as well as consistent rules, for market participants on the Nasdaq affiliated options exchanges. In addition, the proposed rule change relates to adding clarity and consistency in the Exchange's Rulebook, and are designed to reduce any potential investor confusion as to the features and applicability of certain functionality presently available on the Exchange.

The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the majority of the proposed changes will apply to all Members. As it relates to the proposed rule change relating to bulk message functionality, 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

granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

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 also does not believe

that the proposed decommission of the GUI Kill Switch for order cancellation will

impose any burden on intra-market competition that is not necessary or appropriate in

furtherance of the purposes of the Act. As discussed above, the Exchange previously

amended its rules to decommission the quote removal Kill Switch that was available to

Market Makers through the GUI.[141] The Exchange therefore believes that eliminating the

GUI Kill Switch for order cancellation will streamline the Exchange's risk protection

offerings in a manner that reflects Member use. The Exchange will continue to offer

substantially similar Kill Switch functionality through FIX, Precise and OTTO.

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)[142] of the Act and Rule 19b-4(f)(6) thereunder[143] in that it effects a

change that: (i) does not significantly affect the protection of investors or the public

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[141]   See supra note 94.

[142]   15 U.S.C. 78s(b)(3)(A)(iii).

[143]   17 CFR 240.19b-4(f)(6).

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 BX and Phlx, or are similar to existing rules or functionality on Cboe (i.e., bulk messaging, Reserve Orders, and the Attributable Order content in the market data feeds). The proposed rule change aligns the Exchange's System functionality across the Nasdaq affiliated options exchanges, simplifying the technology implementation, changes, and maintenance by Exchange Members that are also market participants on other affiliated Nasdaq options exchanges, retaining only intended differences. The proposed rule change is consistent with the protection of investors and the public interest because it will allow the Exchange to continue to strive towards a technology integration of the Nasdaq affiliated options exchanges in a timely manner to ensure stability of the System. All System functionality as described above will be available to all Members other than the bulk message functionality and Post-Only Quote Configuration. 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. As it relates to the Exchange's proposal to remove pricing for flash functionality and TradeInfo in Options 7, the Exchange believes that the proposed changes do not significantly affect the protection of investors or the public interest because flash functionality and TradeInfo would no longer be available to

any Member. For the same reasons, the Exchange believes that the proposed rule change does not impose any significant burden on competition.

Furthermore, Rule 19b-4(f)(6)(iii)[144] requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

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

The following proposed rule changes are based on the various rules or proposals of various options exchanges, primarily the Nasdaq affiliated options exchanges:

- The proposed changes specified in the Routing Filing section above (i.e., removing references throughout Options 3 and Options 7 to flash functionality, Sweep Orders, and do-not-route orders, and adding references in Supplementary Material .04 to Options 3, Section 7 to FIND, SRCH, and DNR as routing strategies) are based on SR-ISE-2022-11.

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[144]   17 CFR 240.19b-4(f)(6)(iii).

- The bulk message proposal in Options 3, Section 4(b)(3) will be similar to Cboe's bulk message in Cboe Rule 1.1, except Cboe also allows bulk messaging for orders, unlike the Exchange.

- The Market Order proposal in Options 3, Section 7(a) will be materially identical to BX's Market Orders in BX Options 3, Section 7(a)(5).

- The ISO proposal in Options 3, Section 7(b)(5) will be substantially similar to BX's ISO in BX Option 3, Section 7(a)(6). Unlike BX, the Exchange's ISO proposal will not refer to how ISOs may be entered on the Exchange as the Exchange intends address that in a separate rule filing.

- The Exchange's AON proposal will be substantially similar to BX's Contingency Order rule in BX Options 3, Section 7(a)(4)(A) (except BX's rule also describes Minimum Quantity Orders, which the Exchange does not offer today) and BX's AON rule in BX Options 3, Section 7(a)(7).

- The Stop Order proposal in Options 3, Section 7(d) will be substantially similar to Phlx Options 3, Section 7(b)(4), except Phlx does not currently explicitly state that Phlx Stop Orders may only be entered through FIX or Precise because Phlx only offers one order entry protocol (FIX), unlike the Exchange, which offers three (FIX, Precise, and OTTO).

- The Stop Limit Order proposal in Options 3, Section 7(e) will be substantially similar to Phlx Options 3, Section 7(b)(4)(A), except Phlx does not currently explicitly state that Phlx Stop Limit Orders may only be entered through FIX or Precise for the same reasons stated for Stop Orders above.

- The Reserve Order proposal in Options 3, Section 7(g) will be similar to Cboe's Reserve Order functionality in Cboe Rule 5.6(c).

- The Preferenced Order proposal in Options 3, Section 7(l) will be materially identical to Phlx's Directed Order rule in Phlx Options 3, Section 7(b)(11).

- The ALO proposal in Options 3, Section 7(n) will be materially identical to BX ALOs in BX Options 3, Section 7(a)(12).

- The Opening Sweep proposal in Options 3, Section 7(t) will be materially identical to the Phlx Opening Sweep in Phlx Options 3, Section 7(b)(6).

- The Day order proposal in Supplementary Material .02(a) to Options 3, Section 7 will be substantially similar to BX Options 3, Section 7(b)(3), except BX's rule does not refer to OTTO or Precise because BX does not offer OTTO or Precise functionality today.

- The IOC proposal in Supplementary Material .02(d) to Options 3, Section 7 will be substantially similar to BX's IOC in BX Options 3, Section 7(b)(2), except the BX rule does not refer to OTTO or Precise as BX does not offer these features today.

- The OPG proposal in Supplementary Material .02(e) to Options 3, Section 7 will be materially identical to BX's OPG in BX Options 3, Section 7(b)(1).

- The Opening Process proposal in Options 3, Section 8 to allow all market participant interest to route will be identical to BX's Opening Process in BX Options 3, Section 8.

- The following proposed changes to PIM are based on BX PRISM: (1) proposed Options 3, Section 13(b)(5) will be materially identical to BX Options 3, Section

13(i)(E); (2) proposed Options 3, Section 13(c)(3) will be materially identical to BX Options 3, Section 13(ii)(A)(8); (3) proposed Options 3, Section 13(d)(5) will be functionally similar to BX Options 3, Section 13(ii)(C); (4) proposed Options 3, Section 13(d)(6) will be functionally similar to BX Options 3, Section 13(ii)(I); and (5) proposed Supplementary Material .02 to Options 3, Section 13 will be materially identical to BX Options 3, Section 13(iii).

- The proposed OPP risk protection in Options 3, Section 15(a)(1)(A) will be functionally similar to BX OPP in BX Options 3, Section 15(a)(1).[145]

- The proposed Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) will be functionally identical to the BX Post-Only Quote Configuration in BX Options 3, Section 15(c)(3).

- The Depth of Market Feed proposal in Option 3, Section 23(a)(1) will be substantially similar to the BX Depth of Market Feed in BX Options 3, Section 23(a)(1), except the Exchange will not offer auction and exposure notifications on its Depth of Market Feed like BX does today.

- The Order Feed proposal in Options 3, Section 23(a)(2) will contain data elements that are identical to those on BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), specifically around what would be provided in the opening/reopening order imbalance information (i.e., the size of matched contracts and size of the imbalance), and auction and exposure notifications. The

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[145]   As noted above, BX will file a separate rule change to conform its OPP rule to the Exchange's proposed rule.

proposal to add Attributable Order content will be similar to the content currently available on Cboe's Multicast PITCH feed.[146]

- The Top Feed proposal in Options 3, Section 23(a)(3) will be substantially similar to the BX Top Feed in BX Options 3, Section 23(a)(2), except the Exchange will continue to provide aggregated size information unlike BX.

- The TradeInfo proposal is based on SR-BX-2020-027.

- The proposed optional quantity and notional value risk protections in Options 3, Section 28 will be functionally identical to the protections in BX Options 3, Section 28.[147]

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

       Not applicable.

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

       Not applicable.

11.   Exhibits

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

       5.   Text of the proposed rule change.

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146   See supra note 98.

147   As noted above, while the proposed rule text in Options 3, Section 28 adds more
        granularity, including around how orders are rejected when the value thresholds
        for the options risk protections are exceeded, the Exchange understands that the
        BX optional risk protections operate in the same manner. In addition, BX's rule
        does not include Precise as this order entry port is not available on BX today.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-GEMX-2023-02)

January __, 2023

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rules in Connection with the Technology Migration to Enhanced Nasdaq Functionality

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 January 23, 2023, Nasdaq GEMX,

LLC ("GEMX" 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 its rules in connection with a technology

migration to enhanced Nasdaq, Inc. ("Nasdaq") functionality.

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

https://listingcenter.nasdaq.com/rulebook/gemx/rules, at the principal office of the

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

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

In its filing with the Commission, the Exchange included statements concerning

the purpose of and basis for the proposed rule change and discussed any comments it

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

[2]   17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1.   Purpose

In connection with a technology migration to enhanced Nasdaq functionality that will result in higher performance, scalability, and more robust architecture, the Exchange proposes to amend its rules to adopt certain trading functionality currently utilized at Nasdaq affiliate options exchanges. As further discussed below, the Exchange is proposing to adopt such functionality substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

The Exchange intends to begin implementation of the proposed rule change by Q3 2023. The Exchange would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

Routing Changes

In connection with the technology migration to enhanced Nasdaq functionality,

the Exchange recently amended Options 5 (Order Protections and Locked and Crossed

Markets) in order to harmonize its routing functionality to that of Nasdaq BX, Inc.

("BX").[3] As part of this harmonization, the Routing Filing included proposals to adopt or

harmonize routing strategies on the Exchange that are substantially identical to BX, (i.e.,

DNR, FIND, and SRCH), and eliminate existing Exchange routing functionality that BX

does not offer today (e.g., flash functionality,[4] and Sweep Orders[5]).

In connection with the proposed changes in the Routing Filing, the Exchange now

proposes to make corresponding changes to the following Rules within Options 3 to

account for the proposed amendments to Options 5: Section 5 (Entry and Display of

Orders), Section 7 (Types of Orders and Orders and Quote Protocols), Section 9 (Trading

Halts), and Section 10 (Priority of Quotes and Orders).[6] First, the Exchange proposes to

remove the following rule text in Options 3, Section 5(b)(1) relating to flash functionality

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[3]   Specifically, the Exchange's affiliate, Nasdaq ISE, LLC ("ISE") amended ISE
        Options 5, which GEMX Options 5 incorporates by reference. See Securities
        Exchange Act Release No. 94897 (May 12, 2022), 87 FR 30294 (May 18, 2022)
        (SR-ISE-2022-11) ("Routing Filing"). As a result, the amendments to ISE
        Options 5 in the Routing Filing also amended GEMX Options 5.

[4]   Today, the Exchange's flash functionality permits certain eligible incoming orders
        to first be exposed at the National Best Bid or Offer ("NBBO") to all Members
        for execution at the NBBO price before that order is routed to another market for
        execution. See Supplementary Material .02 to Options 5, Section 2.

[5]   A Sweep Order is a limit order that is to be executed in whole or in part on the
        Exchange and the portion not so executed shall be routed pursuant to
        Supplementary Material .05 to Options 5, Section 2 to Eligible Exchange(s) for
        immediate execution as soon as the order is received by the Eligible Exchange(s).
        Any portion not immediately executed by the Eligible Exchange(s) shall be
        canceled. If a Sweep Order is not marketable when it is submitted to the
        Exchange, it shall be canceled. See Options 3, Section 7(s).

[6]   The Exchange notes that ISE proposed substantially similar amendments in ISE
        Options 3 as part of the Routing Filing.

and Non-Customer order handling in lieu of using flash functionality: "Orders that are

not automatically executed will be handled as provided in Supplementary Material .02 to

Options 5, Section 2; provided that Members may specify that a Non-Customer order

should instead be accepted and immediately cancelled automatically by the System[7] at

the time of receipt." With the removal of flash functionality in the Routing Filing, the

foregoing rule text would no longer be necessary. In connection with this change, the

Exchange will renumber current Section 5(b)(2) as (b)(1). Second, the Exchange

proposes to delete similar flash-related language in Options 3, Section 5(d) that currently

provides: "Orders that are not automatically executed will be handled as provided in

Supplementary Material .02 to Options 5, Section 2; provided that Members may specify

that a Non-Customer order should instead be cancelled automatically by the System at

the time of receipt."

Third, the Exchange proposes to delete references to do-not-route orders[8] and

Sweep Orders in Options 3, Section 7(m) and (s), respectively, and reserve those Rules.

As discussed in the Routing Filing, the Exchange is eliminating these order types (and for

do-not-route orders, eliminating as an order type and describing these instead as a routing

strategy) in order to align with BX's current offerings. Fourth, the Exchange proposes to

add a new Supplementary Material .04 to Options 3, Section 7, which would set forth the

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[7]   The term "System" means the electronic system operated by the Exchange that
        receives and disseminates quotes, executes orders and reports transactions. See
        Options 1, Section (a)(49).

[8]   A do-not-route order is a market or limit order that is to be executed in whole or
        in part on the Exchange only. Due to prices available on another options
        exchange (as provided in Options 5 (Order Protection; Locked and Crossed
        Markets)), any balance of a do-not-route order that cannot be executed upon
        entry, or placed on the Exchange's limit order book, will be automatically
        cancelled. See Options 3, Section 7(m).

new routing strategies that are substantially identical to BX's current routing strategies,

as further discussed in the Routing Filing. Specifically, new Supplementary Material .04

would provide: "Routing Strategies. Orders may be entered on the Exchange with a

routing strategy of FIND or SRCH, or, in the alternative, an order may be marked Do-

Not-Route ("DNR") as provided in Options 5, Section 4 through FIX[9] or Precise[10] only."

The addition of this sentence will make clear which routing strategies may be utilized

when submitting an order type and will provide a citation to the routing rule in Options 5,

Section 4 for ease of reference.[11]

Fifth, the Exchange proposes to amend subparagraph (d)(2) of Options 3, Section

9. Among other things, this Rule describes the processing of Market Orders exposed at

the NBBO pursuant to Supplementary Material .02 to Options 5, Section 2 after a trading

halt. This rule text is no longer necessary with the elimination of flash functionality in

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[9]   "Financial Information eXchange" or "FIX" is an interface that allows Members
        and their Sponsored Customers to connect, send, and receive messages related to
        orders and auction orders to the Exchange. Features include the following: (1)
        execution messages; (2) order messages; (3) risk protection triggers and cancel
        notifications; and (4) post trade allocation messages. See Supplementary Material
        .03(a) to Options 3, Section 7.

[10]   "Nasdaq Precise" or "Precise" is a front-end interface that allows Electronic
        Access Members and their Sponsored Customers to send orders to the Exchange
        and perform other related functions. Features include the following: (1) order and
        execution management: enter, modify, and cancel orders on the Exchange, and
        manage executions (e.g., parent/child orders, inactive orders, and post-trade
        allocations); (2) market data: access to real-time market data (e.g., NBBO and
        Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill
        switch); and (4) book keeping and reporting: comprehensive audit trail of orders
        and trades (e.g., order history and done away trade reports. See Supplementary
        Material .03(d) to Options 3, Section 7. The Exchange notes that FIX and Precise
        are the only order entry protocols on the Exchange that permit routing today.

[11]   Routing options may be combined with all available order types and times-in-
        force ("TIFs"), with the exception of orders and TIFs whose terms are
        inconsistent with the terms of a particular routing option.

the Routing Filing. Sixth, the Exchange proposes to amend Options 3, Section 10(a)(ii)[12]

to remove a reference to flash functionality that will no longer exist with the proposed

changes in the Routing Filing. The Exchange also proposes to renumber Options 3,

Section 10(a)(i) and (ii) as Options 3, Section 10(a)(1) and (2) to conform the numbering

in that Rule.

Seventh, the Exchange proposes to amend its Pricing Schedule at Options 7 to

remove all references to pricing related to the flash functionality. In particular, the

Exchange proposes to delete the definition of Flash Order in Options 7, Section 1.

Bulk Message

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 does not permit bulk

messaging for orders today. The Exchange has historically provided Market Makers with

information regarding bulk messaging in its publicly available technical specifications.[13]

To promote greater transparency, the Exchange is seeking to codify this functionality in

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[12]   Options 3, Section 10(a)(ii) currently provides that this rule does not apply to the
          Block Order Mechanism described within Options 3, Section 11(a), the
          Facilitation Mechanism described within Options 3, Section 11(b), the Solicited
          Order Mechanism described within Options 3, Section 11(d), the Price
          Improvement Mechanism described within Options 3, Section 13, orders
          described within Options 3, Section 12 *or an exposure period as provided in
          Options 5, Section 2 at Supplementary Material .02*, unless Options 3, Section 10
          is specifically referenced within GEMX Rules applicable to the aforementioned
          functionality.

[13]   See https://www.nasdaq.com/docs/2022/05/17/SQF_8.2b.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 Member can send such quote block messages.

its Rulebook. Specifically, the Exchange proposes to amend 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.[14] The bulk message, submitted via

SQF,[15] may enter, modify, or cancel quotes. Bulk messages are handled by the System in

the same manner as it handles a single quote message.

The Exchange notes that other exchanges like Cboe Options Exchange ("Cboe")

currently offer similar bulk messaging functionality that allow their market participants to

submit block quantity quotes in a single electronic message.[16]

Order Types

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[14]   See 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 Members.

[15]   "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 Supplementary
         Material .03(c) to Options 3, Section 7.

[16]   See definition of "bulk message" in Cboe Rule 1.1. Unlike Cboe, which also
         allows bulk messaging for orders, the Exchange's bulk message functionality only
         applies to quotes as discussed above.

The Exchange proposes to make several enhancements to certain order types in Options 3, Section 7 in connection with the technology migration to Nasdaq enhanced functionality. Specifically in connection with the migration, the Exchange proposes to: (1) introduce an intra-day cancel timer feature for Market Orders,[17] (2) eliminate non-Immediate-or-Cancel ("IOC")[18] Intermarket Sweep Orders ("ISOs"),[19] (3) introduce BX-like re-pricing to Add Liquidity Orders ("ALOs"),[20] and (4) allow Market Orders to be entered as Opening Only ("OPG")[21] orders (currently only allowed for Limit Orders).[22]

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[17]   A market order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. See Options 3, Section 7(a).

[18]   An IOC order must be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. See Options 3, Section 7(b)(3). As discussed later in this filing, the Exchange will relocate the IOC rule into Supplementary Material .02 to Options 3, Section 7.

[19]   An ISO is a limit order that meets the requirements of Options 5, Section 1(h). See Options 3, Section 7(b)(5).

[20]   An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. See Options 3, Section 7(n).

[21]   An OPG order is a Limit Order that can be entered for the opening rotation only. See Options 3, Section 7(o). As discussed later in this filing, the Exchange will relocate the OPG rule into Supplementary Material .02 to Options 3, Section 7.

As discussed below, the proposed enhancements are intended to align with existing BX

functionality. The Exchange also proposes to add more granularity on how certain order

types currently operate on the Exchange today, codify existing order type functionality,

and to relocate related rule text within Options 3, Section 7 for better readability. Except

with respect to the order type enhancements specified above, none of the proposed order

type rule changes will amend current functionality. Rather, these changes are designed to

bring greater transparency as to the applicability of certain order types currently available

on the Exchange, and to provide greater consistency between the rules of the Exchange

and its affiliates.

Market Orders

The Exchange proposes to amend the definition of Market Orders in Options 3,

Section 7(a) to introduce a cancel timer feature, which will allow Members to designate

Market Orders that do not execute after a certain period of time to be cancelled back to

the Member. Specifically, the Exchange proposes to add that Members can designate

their Market Orders not executed after a pre-established period of time, as established by

the Exchange,[23] will be cancelled back to the Member, once an options series has opened

for trading. BX currently has an identical timer feature for BX Market Orders.[24] Similar

to BX, the proposed timer would be available once the intra-day trading session begins

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[22]   A Limit Order is an order to buy or sell a stated number of options contracts at a
        specified price or better. See Options 3, Section 7(b).

[23]   The Exchange will initially set the pre-established period of time at 4 seconds,
        identical to BX. This specification will be set out in the GEMX System settings
        document on a publicly available website. The Exchange would issue an Options
        Trader Alert notifying all Members if it determined to amend that timeframe.

[24]   See BX Options 3, Section 7(a)(5).

for an options series, as the Exchange already has a separate opening delay timer that

provides protection to the market during the Opening Process. In particular, the

Exchange would cancel or route orders (consistent with the Member's instructions) if an

options series has not opened before the conclusion of the opening delay timer.[25] As

such, the Exchange is proposing that the pre-established period of time for the proposed

timer feature would commence once the intra-day trading session begins for that options

series. In other words, while the opening process is on-going, and the intra-day trading

session has not commenced, the pre-established period of time for the proposed timer

feature would not commence. Further, the Exchange proposes to note that Market Orders

on the order book would be immediately cancelled if an options series is halted, provided

the Member designated the cancellation of Market Orders.[26] The proposed changes are

intended to make clear that in the event there is a Market Order in a zero bid market with

the Market Order was resting on the order book, the Member has an option to designate

the cancellation of that Market Order pursuant to the proposed cancel timer feature. In

this case, those Market Orders to sell, which were resting on the order book, would

immediately cancel upon a trading halt instead of waiting until the end of the pre-

established timer period. BX has identical language governing its Market Orders today.[27]

Like BX, the Exchange believes that the proposed intra-day timer feature will provide

additional flexibility for Members that wish to cancel unexecuted Market Orders after a

certain period of time. Lastly, the Exchange proposes a non-substantive change to

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[25]   See Options 3, Section 8(k).

[26]   Members may make the designation to cancel their Market Orders through their
         FIX, OTTO, and Precise port settings.

[27]   See BX Options 3, Section 7(a)(5).

capitalize the term "market orders" in the first sentence of Options 3, Section 7(a) for

consistency with the proposed rule text.

Intermarket Sweep Orders

The Exchange proposes to amend the ISO rule in Options 3, Section 7(b)(5),

which currently provides that an ISO is limit order that meets the requirements of Options

5, Section 1(h).[28] As amended, the ISO rule will provide:

> An Intermarket Sweep Order ("ISO") is a limit order that meets the requirements of Options 5, Section 1(h). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a TIF designation of IOC. ISOs may not be submitted during the Opening Process.

The proposed rule text is substantially similar to BX's ISO rule in BX Options 3,

Section 7(a)(6).[29] The Exchange is also proposing to add that ISOs may not be submitted

during the Opening Process to reflect current System handling. The Exchange notes that

BX similarly prohibits the submission of ISOs before the market opens and therefore

proposes to add a similar level of detail in the Exchange's ISO rule.

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[28]   Options 5, Section 1(h) provides that an ISO is a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate-Or-Cancel Order or an order that expires on the day it is entered.

[29]   BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." See BX Options 3, Section 7(a)(6). The Exchange notes that it intends to file a separate rule filing to add similar language as BX relating to how ISOs may be entered on the Exchange.

Other than the stipulation that ISOs must have a TIF[30] designation of IOC, the
proposed language does not amend the current ISO functionality but rather is intended to
add more granularity and more closely align the ISO rule with BX's ISO rule. The
Exchange does note that in connection with the System migration, the Exchange proposes
to amend the current ISO functionality to only allow ISOs to be entered as IOC. Today,
Options 5, Section 1(h) provides that an ISO may either be an IOC or an order that
expires on the day it is entered.[31] The Exchange is proposing to require ISOs to be
entered as IOC, which would cause an ISO to cancel in whole or in part upon receipt if
the ISO does not execute or does not entirely execute, because an ISO is generally used
when trying to sweep a price level across multiple exchanges in an effort to post the
balance of an order without locking an away market. The Exchange therefore believes
that ISOs have a limited purpose and should be cancelled if they do not execute or do not
entirely execute. As noted above, the proposal will align to current BX functionality that
similarly only allows ISOs to be entered as IOC on BX.

All-or-None Orders

The Exchange proposes to amend the All-Or-None ("AON") Order rule in
Options 3, Section 7(c), which currently provides that an AON Order is a limit or market
order that is to be executed in its entirety or not at all, and that an AON Order may only

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[30]   As discussed later in this filing, the Exchange is proposing to codify the definition
of "Time in Force" or "TIF" to mean the period of time that the System will hold
an order for potential execution. See proposed Supplementary Material .02 to
Options 3, Section 7.

[31]   Because GEMX Options 5 incorporates ISE Options 5 by reference, ISE will file
a subsequent ISE rule filing to amend Options 5 to remove the language in
Options 5, Section 1(h) that currently allows ISOs to be entered as an order that
expires on the day it is entered.

be entered as an IOC Order. As amended, the AON rule will provide:

> An All-Or-None ("AON") Order is a limit or market order that is to be executed in its entirety or not at all. An AON Order may only be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

With the proposed changes, the Exchange is not amending current AON functionality; rather, it is memorializing current System behavior in a manner consistent with its affiliates. Today, AON Orders have a size contingency (i.e., executed in its entirety at the entered size or not at all) and must be IOC. The Exchange is specifying that AON Orders will execute against multiple, aggregated orders only if the executions would occur simultaneously to ensure that AON Orders are executed at the specified size while also honoring the priority of all other orders on the order book. The Exchange is adopting this rule text for AON orders to align to substantially similar language on BX.[32]

The Exchange notes that the handling of AONs as described in the proposed rule text in Options 3, Section 7(c) is consistent with the Exchange's allocation methodology in Options 3, Section 10. The additional detail makes clear that because of the size contingency of AON Orders, those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs.

The Exchange is also proposing to add that AON orders may not be submitted during the Opening Process to reflect current System handling. The Exchange notes that BX similarly prohibits the submission of AON orders before the market opens and

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[32]   See BX Options 3, Section 7(a)(4)(A) (describing Minimum Quantity Orders and AON Orders as Contingency Orders). Unlike BX, the Exchange does not currently offer Minimum Quantity Orders.

therefore proposes to add a similar level of detail in the Exchange's AON rule.[33]

Stop Orders

The Exchange proposes to amend its Stop Order rule in Options 3, Section 7(d), which presently provides that a stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. The Exchange now proposes to add that a Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders allow Members increased control and flexibility over their transactions and the prices at which they are willing to execute an order. The purpose of a Stop Order is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be executed. A Stop Order that is immediately electable upon receipt would therefore negate the purpose of the Stop Order, so the Exchange would cancel such orders today. The Exchange believes that this ensures Members are able to use Stop Orders to achieve their intended purpose. The proposed changes codify current Stop Order handling and are intended to better align the Exchange's Stop Order rule with that of its affiliate, Phlx.[34]

The Exchange also proposes to specify that Stop Orders may only be entered through FIX or Precise. This is how Stop Orders are handled today. Because the Exchange offers three order entry protocols today (FIX, Precise, and OTTO),[35] the

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[33]   See BX Options 3, Section 7(a)(7).

[34]   See Phlx Options 3, Section 7(b)(4).

[35]   "Ouch to Trade Options" or "OTTO" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to

Exchange believes that adding this detail will make clear that Stop Orders are only available to be entered through two of these order entry protocols and reduce any potential confusion.

Stop Limit Orders

The Exchange proposes to amend its Stop Limit Order rule in Options 3, Section 7(e), which presently provides that a stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop limit order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. The Exchange now proposes to add that a Stop Limit Order shall be cancelled if it is immediately electable upon receipt. The Exchange would cancel these orders today for the same reasons discussed above for Stop Orders. The proposed changes codify current Stop Limit Order handling and are intended to better align the Exchange's Stop Limit Order rule with that of Phlx.[36]

The Exchange also proposes to specify that Stop Limit Orders may only be entered through FIX or Precise. This is how Stop Limit Orders are handled today. For the same reasons discussed above for Stop Orders, the Exchange believes that adding this detail will make clear that Stop Limit Orders are only available to be entered through the

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orders, auction 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) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages. See Supplementary Material .03(b) to Options 3, Section 7.

[36]   See Phlx Options 3, Section 7(b)(4)(A).

specified order entry protocols and reduce any potential confusion. Lastly, the Exchange

proposes a non-substantive change to correct a punctuation error in the paragraph header.

Cancel and Replace Orders

The Exchange proposes to relocate the rule text governing Cancel and Replace

Orders from Supplementary Material .02 to Options 3, Section 7 into Options 3, Section

7(f). The Exchange also proposes non-substantive, clarifying changes to the relocated

rule text to update the incorrect cross-cites therein to the System's price or other

reasonability checks. The Exchange also proposes to amend the following portion of the

rule, which currently provides: "The replacement order will retain the priority of the

cancelled order, if the order posts to the Order Book, provided the price is not amended,

size is not increased, or in the case of Reserve Orders,[37] size is not changed." The

Exchange proposes to make clear that in the case of Reserve Orders, a change in price

will also result in a change of priority for the replacement order. The Exchange also

proposes to clarify that the reference to the Reserve Order's size in this Rule is referring

to both displayed and non-displayed size. As amended, the rule will provide: "The

replacement order will retain the priority of the cancelled order, if the order posts to the

Order Book, provided the price is not amended, or size is not increased. In the case of

Reserve Orders, the replacement order will retain the priority of the cancelled order, if the

order posts to the Order Book, provided the price is not amended or size (displayed and

non-displayed) is not changed." The proposed changes will aid market participants in

locating this order type in the main body of the rule, and add more granularity around

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[37]   As discussed later in this filing, a Reserve Order is defined in Options 3, Section
        7(g) as a Limit Order that contains both a displayed portion and a non-displayed
        portion.

how the Exchange will treat the cancellation and replacement of Reserve Orders.

Reserve Orders

As described in Options 3, Section 7(g), the Exchange offers Members a Reserve Order, which is a Limit Order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book. The non-displayed portion of a Reserve Order will be available for execution only after all displayed interest at that price has been executed. Both the displayed and the non-displayed portions of a Reserve Order will be ranked initially by the specified limit price and time of entry, and both the displayed and non-displayed portions of a Reserve Order will trade in accordance with the priority and allocation provisions in Options 3, Section 10.

When the displayed portion of a Reserve Order has been decremented, in whole or in part, it will be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion will include the previously displayed portion. Upon any refresh, the entire displayed portion of the order will be ranked at the specified limit price, assigned a new entry time (i.e., the time that the newly displayed portion of the order was refreshed), and given priority in accordance with Options 3, Section 10. Any remaining non-displayed portion of the order will receive the same time stamp as the newly displayed portion of the order.

The Exchange now proposes to enhance the Reserve Order rule by providing more granularity in how Members may elect to refresh the display quantity for the Reserve Order. The Exchange is not proposing to modify the current functionality of

Reserve Orders, but rather proposes to augment the definition to clarify current System

behavior. Specifically, the Exchange proposes to make clear that Reserve Orders may be

entered with an instruction for the displayed portion of the order to be refreshed: (A)

upon full execution of the displayed portion or upon any partial execution; and (B) up to

the initial size of the displayed portion or with a random refresh quantity within a range

determined by the Member.[38] The Exchange believes that this refresh feature for Reserve

Orders provides more flexibility and opportunities for Members to add displayed

liquidity to the Exchange. The Exchange believes that the proposed changes would add

transparency to the operation of Reserve Orders, without altering current functionality.

The Exchange notes that other options exchanges like Cboe currently offer similar refresh

features on their Reserve Order functionality.[39]

Finally, the Exchange proposes non-substantive, technical changes in Options 3,

Section 7(g) to reformat the paragraph numbering, correct a punctuation error in

paragraph (3), and update a cross-cite in proposed paragraph (6).

Attributable Orders

As described in Options 3, Section 7(h), the Exchange currently offers

Attributable Orders, which allow Members to voluntarily display their firm IDs on the

orders. The rule also provides the Exchange with flexibility to announce which

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[38]   See proposed Options 3, Section 7(g)(4). The Exchange will also renumber the
        paragraphs within this rule accordingly. As it relates to the refresh quantity range,
        Members must designate a range for the random refresh election when they
        submit the Reserve Order if they elect a random refresh, otherwise the Reserve
        Order would be refreshed at a quantity equal to the initial size of the displayed
        portion. The range must be set at a number between 1 and the initial displayed
        quantity.

[39]   See Cboe Rule 5.6(c) (setting forth the random replenishment and fixed
        replenishment features for Reserve Orders).

Exchange Systems and class of securities for which the Attributable Order would be available.[40]

The Exchange now proposes to delete existing text that refers to class of securities in Options 3, Section 7(h). Attributable Orders are available for all classes of securities today. The Exchange is therefore deleting this language as inaccurate. The Exchange also proposes a corrective change herein to "an Option Trader Alert."

Customer Cross Orders

Customer Cross Orders are currently defined in Options 3, Section 7(i). The Exchange proposes to add that such orders will trade in accordance with Options 3, Section 12(a). This is a non-substantive amendment to add a cross-reference to Section 12(a), which currently describes in detail how a Customer Cross Order would execute on the Exchange.

Qualified Contingent Cross Orders

Qualified Contingent Cross ("QCC") Orders are currently defined in Options 3, Section 7(j). The Exchange proposes a non-substantive, technical change to add a reference to "QCC" in the first sentence of this rule. The Exchange also proposes to add that QCC Orders will trade in accordance with Options 3, Section 12(c). This is a non-substantive amendment to add a cross-reference to Section 12(c), which currently describes in detail how a QCC Order would execute on the Exchange.

The Exchange further proposes to specify that QCC Orders may only be entered through FIX or Precise. This is how QCC Orders are handled today. Because the Exchange offers three order entry protocols today (FIX, Precise, and OTTO), the

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[40]   Today, Attributable Orders are not available for the Facilitation, Solicited Order, and Price Improvement Mechanisms.

Exchange believes that adding this detail will make clear that QCC Orders are only available to be entered through two of these order entry protocols and reduce any potential confusion.

Preferenced Orders

The Exchange proposes to include the following definition of a Preferenced Order in Options 3, Section 7(l) for ease of reference: "A Preferenced Order is as described in Options 2, Section 10." This is not a new order type, as Preferenced Orders are currently described in Options 2, Section 10. While this order type is not currently listed in the order type rule in Options 3, Section 7, the Exchange believes that it will be useful to market participants to have order types centralized within one rule. Phlx similarly lists out Directed Orders (akin to Preferenced Orders) in its order type rule in Phlx Options 3, Section 7(b)(11).

Add Liquidity Orders

Add Liquidity Orders ("ALOs") are currently defined in Options 3, Section 7(n). Today, the Exchange offers ALOs to provide market participants with greater control over the circumstances in which their orders are executed. ALOs are Limit Orders that will only be executed as a "maker" on the Exchange (i.e., when the Member is providing liquidity). Members can choose whether an ALO that is executable on the Exchange upon entry (or that is not executable on the Exchange upon entry, but locks or crosses the NBBO) will be cancelled or re-priced to one MPV above the national best bid (for sell orders) or below the national best offer (for buy orders). If at the time of entry, an ALO would lock or cross one or more non-displayed orders on the Exchange, the ALO will be cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders)

or below the best non-displayed offer price (for buy orders).[41] Today, an ALO will only

be re-priced once and will be executed at the re-priced price. The Exchange notes that

without the ability to re-price an ALO in the foregoing manner, under certain

circumstances, an incoming ALO could execute against a displayed or non-displayed

order resting on the Exchange's limit order book, which would be in direct contravention

with the purpose of an ALO (to provide liquidity, not take liquidity).

As part of a concurrent rule filing, the Exchange is proposing to adopt a re-pricing

mechanism identical to current BX re-pricing functionality[42] to avoid certain orders from

locking or crossing an away market's price.[43] In connection with the proposed adoption

of the BX-like re-pricing mechanism in Options 3, Section 5(d) in the Re-Pricing Filing,

the Exchange now proposes to make related changes to the ALO rule in Options 3,

Section 7(n). In particular, the Exchange proposes that if an ALO would not lock or

cross an order or quote on the System but would lock or cross the NBBO, the order will

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[41]   As discussed in more detail below, the Exchange will amend this sentence to say
         "orders *or quotes*" to codify existing ALO behavior.

[42]   Today, BX re-prices certain orders to avoid locking and crossing away markets,
         consistent with its Trade-Through compliance and Locked or Crossed Markets
         obligations. See BX Options 3, Section 5(d). See also Securities Exchange Act
         Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-
         2020-017) (describing BX re-pricing mechanism in BX Options 3, Section 5).

[43]   See Securities Exchange Act Release No. 96363 (November 18, 2022) (SR-
         GEMX-2022-10) ("Re-Pricing Filing"). Specifically in the Re-Pricing Filing, the
         Exchange is proposing to adopt the following language in Options 3, Section 5(d),
         which will be identical to BX Options 3, Section 5(d): An order that is designated
         by a Member as non-routable will be re-priced in order to comply with applicable
         Trade-Through and Locked and Crossed Markets restrictions. If, at the time of
         entry, an order that the entering party has elected not to make eligible for routing
         would cause a locked or crossed market violation or would cause a trade-through
         violation, it will be re-priced to the current national best offer (for bids) or the
         current national best bid (for offers) and displayed at one minimum price variance
         above (for offers) or below (for bids) the national best price.

be handled pursuant to Options 3, Section 5(d), which will set forth the new BX-like re-pricing mechanism for non-routable orders.[44] As noted in Options 3, Section 7(n), ALOs are inherently non-routable. Accordingly, the Exchange is proposing to handle ALOs in a consistent manner with the new re-pricing mechanism. Because the new mechanism will allow for continuous re-pricing as discussed above, the Exchange also proposes to remove the current limitation in the ALO rule stipulating that these orders will only be re-priced once and executed at the re-priced price. The proposed order handling for ALOs will be functionally identical to ALO handling on BX today.[45]

The Exchange further proposes a clarifying change in the ALO rule that would not amend current System behavior. The Exchange proposes to add "or quotes" to make clear that if at the time of entry, an ALO would lock or cross one or more non-displayed orders *or quotes* on the Exchange, the ALO will be cancelled or re-priced to one MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).

Finally, the Exchange proposes to add that ALOs may only be submitted when an options series is open for trading to make clear that an ALO would not be accepted during the Opening Process when the order book is not available. The proposed rule text is consistent with current functionality, so the Exchange is codifying current ALO behavior with this change and adding the same level of detail currently in BX's ALO

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[44]   Id.

[45]   See BX Options 3, Section 7(a)(12). See also Securities Exchange Act Release No. 93896 (January 4, 2022), 87 FR 1231 (January 10, 2022) (SR-BX-2021-054), which introduced ALOs on BX.

rule.[46]

As amended, Options 3, Section 7(n) will provide:

An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

Opening Sweep

Opening Sweeps are currently defined in Options 3, Section 7(t) as a Market Maker order submitted for execution against eligible interest in the System during the Opening Process pursuant to Options 3, Section 8(b)(1). The Exchange proposes to replace the current definition with the following: "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. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b)(1) and will be cancelled upon the open if not executed."

The proposed rule text is consistent with current functionality, so the Exchange is

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[46]   Id.

providing additional context to the Opening Sweep as currently described in Options 3,

Section 8(b) and codifying current Opening Sweep behavior with this change.

Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker

during the Opening Process, the Exchange is making clear in the proposed rule text that

this order type is entered through SQF.[47] The Exchange is also specifying that Opening

Sweeps are not subject to any risk protections in Options 3, Section 15 (except

Automated Quotation Adjustments) because the Opening Process itself has boundaries

(notably, the Quality Opening Market[48] and the Opening Quote Range[49]) within which

orders will be executed. As it relates to the proposed language relating to Opening

Sweep participation in the Opening Process and cancellation upon the open, the

Exchange notes that this concept is not new as Opening Sweeps are already described in

Options 3, Section 8 today and apply only during the Opening Process. The language

merely provides additional context to the order type.

      The Exchange notes that the Opening Sweep is functionally identical to the

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[47]   See Supplementary Material .03(c) of Options 3, Section 7, which notes that SQF is an interface that allows Market Makers to submit IOC orders.

[48]   A "Quality Opening Market" is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny versus non-Penny Interval Program issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions. See Options 3, Section 8(a)(7).

[49]   The Opening Quote Range represents the outer boundaries at which the Exchange may open. See Options 3, Section 8(i).

Opening Sweep on Phlx,[50] so the proposed language will harmonize the Exchange's rule

with the current Phlx rule.

> ### *Time in Force*

Today, the Exchange notes that certain functionality is described as an "order

type" in Options 3, Section 7, but would be more precisely described as a TIF attribute

that may be added to a particular order type. Accordingly, the Exchange proposes to

codify the term "TIF" in proposed Supplementary Material .02 to Options 3, Section 7.

The proposed TIF definition will be identical to the TIF definition in BX Options 3,

Section 7(b). The Exchange also proposes to relocate various rules into Supplementary

Material .02 to centralize the TIFs that are available on the Exchange today. As

proposed, the rule text will provide:

.02 **Time in Force**. 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:

(a) **Day**. An order to buy or sell entered with a TIF of "DAY," which, if not executed,
   expires at the end of the day on which it was entered. All orders by their terms are
   Day orders unless otherwise specified. Day orders may be entered through FIX,
   OTTO, or Precise.

(b) **Good-Till-Canceled**. An order to buy or sell entered with a TIF of "GTC" that
   remains in force until the order is filled, canceled or the option contract expires;
   provided, however, that GTC orders will be canceled in the event of a corporate
   action that results in an adjustment to the terms of an option contract. GTC orders
   may be entered through FIX or Precise.

(c) **Good-Till-Date**. An order to buy or sell entered with a TIF of "GTD," which, if not
   executed, will be cancelled at the sooner of the end of the expiration date assigned to
   the order, or the expiration of the series; provided, however, that GTD orders will be
   canceled in the event of a corporate action that results in an adjustment to the terms
   of an option contract. GTD orders may be entered through FIX or Precise.

(d) **Immediate-or-Cancel**. An order entered with a TIF of "IOC" that is to be executed
   in whole or in part upon receipt. Any portion not so executed is to be treated as

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[50]   See Phlx Options 3, Section 7(b)(6).

cancelled.

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

    (2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively.

    (3) Block Orders, Facilitation Orders, SOM Orders, PIM Orders, QCC Orders, and Customer Cross Orders 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) **Opening Only**. An Opening Only ("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. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.

The Exchange is relocating rule text governing Day orders from Options 3, Section 7(l) into Supplementary Material .02(a) to specify that orders may be entered with a TIF of DAY. The Exchange also proposes to include additional detail that Day orders may be entered through FIX, OTTO, or Precise. This is how Day orders operate today, and the proposed rule text merely adds the same level of detail currently in BX's Day order rule.[51]

The Exchange is relocating rule text governing Good-Till-Canceled ("GTC") orders from Options 3, Section 7(r) into Supplementary Material .02(b) to specify that orders may be entered with a TIF of GTC. The Exchange also proposes to include additional detail that GTC orders may be entered through FIX or Precise. This articulates current GTC behavior.

The Exchange is relocating rule text governing Good-Till-Date ("GTD") orders

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[51]   <u>See</u> BX Options 3, Section 7(b)(3). BX's rule does not refer to OTTO or Precise because BX does not offer these order entry ports today.

from Options 3, Section 7(p) into Supplementary Material .02(c) to specify that orders

may be entered with a TIF of GTD. The Exchange also proposes a number of changes

that do not modify current GTD functionality, but are intended to align to the GTC rule

described above. Today, GTC and GTD orders are intended to be functionally similar

except GTC generally persists until it is cancelled by the Member and GTD generally

persists until the assigned date. Accordingly, the Exchange seeks to add a similar level of

detail to the GTD rule as it is proposing in the GTC rule above. First, the Exchange

proposes to remove the word "limit" from the relocated GTD rule text. Similar to GTC

orders, GTD orders can also be sent as Market Orders (in addition to Limit Orders) today.

The proposed changes will therefore align the rule text with current functionality.

Second, the Exchange proposes to add that GTD orders will be canceled in the event of a

corporate action that results in an adjustment to the terms of an option contract. This

language is copied from current GTC rule text and articulates current GTD behavior.

Third, the Exchange proposes to include additional detail that GTD orders may be

entered through FIX or Precise. This mirrors the proposed changes for GTC orders and

articulates current GTD behavior.

The Exchange is relocating rule text governing IOC orders from Options 3,

Section 7(b)(3) into Supplementary Material .02(d) to Options 3, Section 7 to specify that

orders may be entered with a TIF of IOC. The Exchange also proposes a number of

changes to conform the Exchange's IOC rule with that of BX. None of the proposed

changes modify current Exchange IOC functionality. First, the Exchange proposes to

remove the word "limit" from the relocated IOC rule text in Supplementary Material

.02(d). Today, IOC orders may be sent as either a Market Order or Limit Order.

Eliminating the word "limit" from the proposed IOC rule will therefore align the rule text

with current functionality.[52] Second, the Exchange proposes to memorialize current IOC

behavior in Supplementary Material .02(d)(1) by stating that orders entered with a TIF of

IOC are not eligible for routing.[53] Third, the Exchange proposes to codify current IOC

behavior in Supplementary Material .02(d)(2) by stating that IOC orders may be entered

through FIX, OTTO, Precise, or SQF.[54]

Fourth, the Exchange proposes to note in the same section that an IOC order

entered by a Market Maker through SQF will not be subject to the Order Price

Protection,[55] Market Order Spread Protection,[56] and Size Limitation Protection[57] as

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[52]   BX similarly allows both Market Orders and Limit Orders to be entered as IOC.
         See BX Options 3, Section 7(b)(2). The Exchange is not specifying Market and
         Limit Orders in the relocated IOC rule text for consistency with the other TIFs in
         proposed Supplementary Material .02 to Options 3, Section 7.

[53]   See BX Options 3, Section 7(b)(2)(A) for identical language.

[54]   See BX Options 3, Section 7(b)(2)(B) for substantially similar language. BX's
         rule does not refer to OTTO or Precise because BX does not offer these ports
         today.

[55]   The current IOC rule references the Limit Order Price Protection as set forth in
         Options 3, Section 15(a)(1)(A). As discussed later in this filing, the Exchange is
         proposing to replace the existing Limit Order Price Protection with a similar risk
         management tool called Order Price Protection. See proposed Options 3, Section
         15(a)(1)(A).

[56]   Market Orders will be rejected if the NBBO is wider than a preset threshold at the
         time the order is received by the System. Market Order Spread Protection shall
         not apply to the Opening Process or during a trading halt. The Exchange may
         establish different thresholds for one or more series or classes of options. See
         Options 3, Section 15(a)(1)(B).

[57]   There is a limit on the number of contracts an incoming order or quote may
         specify. Orders or quotes that exceed the maximum number of contracts are
         rejected. The maximum number of contracts, which shall not be less than 10,000,
         is established by the Exchange from time-to-time. See Options 3, Section
         15(a)(2)(B).

defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B), respectively.[58] Today, the

IOC rule explicitly excludes the Limit Order Price Protection and Size Limitation

Protection from applying to IOC orders entered through SQF. As discussed later in this

filing, the current Limit Order Price Protection will be replaced by a similar risk

management tool called the Order Price Protection that will be identical to BX, so the

Exchange will likewise reflect that change in the proposed IOC rule. The proposed

change to exclude the Market Order Spread Protection from applying to IOC orders

entered through SQF is not a change to IOC current functionality, but rather, a change to

align the rule with current System behavior and with BX IOC rule.[59]

The Exchange notes while it generally only permits orders (including IOC orders)

to be entered into its three order entry protocols, FIX, OTTO, and Precise, it does permit

the entry of IOC orders by Market Makers into its quote protocol, SQF. The Exchange

has elected not to apply the specified risk protections on IOC orders entered through SQF

as it does for IOC orders entered through FIX, OTTO, and Precise because only Market

Makers utilize SQF to enter IOC orders. Market Makers are professional traders with

their own risk settings. FIX, OTTO, and Precise, on the other hand, are utilized by all

market participants who may not have their own risk settings, unlike Market Makers.

Market Makers utilize IOC orders to trade out of accumulated positions and manage their

risk when providing liquidity on the Exchange. The Exchange understands that proper

risk management, including using these IOC orders to offload risk, is vital for Market

Makers, and allows them to maintain tight markets and meet their quoting and other

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[58]   See BX Options 3, Section 7(b)(2)(B) for substantially similar language.

[59]   See BX Options 3, Section 7(b)(2)(B).

obligations to the market. Market Makers handle a large amount of risk when quoting

and in addition to the risk protections required by the Exchange, Market Makers utilize

their own risk management parameters when entering orders, minimizing the likelihood

of a Market Maker's erroneous order from being entered. The Exchange believes that

Market Makers, unlike other market participants, have the ability to manage their risk

when submitting IOC orders through SQF and should be permitted to elect this method of

order entry to obtain efficiency and speed of order entry, particularly in light of the

quoting obligations that the Exchange imposes on these participants, unlike other market

participants.[60] The Exchange believes that allowing Market Makers to submit IOC

orders through their preferred protocol increases their efficiency in submitting such

orders and thereby allows them to maintain quality markets to the benefit of all market

participants that trade on the Exchange. For the foregoing reasons, the Exchange has

opted to not offer the Order Price Protection, Market Order Spread Protection, and Size

Limitation for IOC orders entered through SQF because Market Makers have more

sophisticated infrastructures than other market participants and are able to manage their

risk.

The Exchange also proposes to add substantially similar language in

Supplementary Material .03(c), which governs the SQF protocol. Specifically, the

Exchange proposes to add: "Immediate-or-Cancel Orders entered into SQF are not

subject to the Order Price Protection, Market Order Spread Protection, and Size

Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively."

Adding these exceptions to the SQF rule as well as the IOC rule will make clear that

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[60]   See Options 2, Section 5(e).

these order protections will not apply to IOC orders entered through SQF.

The Exchange further proposes to specify in Supplementary Material .02(d)(3) that Block Orders, Facilitation Orders, SOM Orders, PIM Orders, QCC Orders, and Customer Cross Orders 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.[61] The proposed changes in Supplementary Material .02(d)(3) memorialize current System behavior and are intended to bring greater transparency in how these order types operate today.

The Exchange is relocating rule text governing OPG orders from Options 3, Section 7(o) into Supplementary Material .02(e) to specify that orders may be entered with a TIF of OPG. The Exchange also proposes a number of changes to conform the Exchange's OPG rule with that of BX. Other than as specified below, the proposed changes do not modify current Exchange OPG functionality. The Exchange proposes to remove the word "limit" from the relocated OPG rule text in Supplementary Material .02(e) in order to reflect that the Exchange will now allow both Market and Limit OPG Orders. As noted above, this is a proposed functionality change to align with current BX OPG functionality.[62] The Exchange also proposes non-substantive changes to replace the current references to the opening rotation with the term "Opening Process" as defined in Options 3, Section 8. The Exchange further proposes to codify current OPG behavior by stating that OPG orders may not route.[63] Lastly, the Exchange proposes to memorialize

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[61]   See BX Options 3, Section 7(b)(2)(C) for substantially similar language for PRISM orders.

[62]   See BX Options 3, Section 7(b)(1).

[63]   See BX Options 3, Section 7(b)(1) for identical language.

current OPG behavior by indicating that OPG orders are not subject to any protections

listed in Options 3, Section 15, except Size Limitation.[64] Today, the Exchange does not

apply any of the risk protections in Options 3, Section 15 (except Size Limitation)

because the Opening Process itself has boundaries within which orders will be

executed.[65]

Opening Process

        In connection with the technology migration, the Exchange proposes several

enhancements to its Opening Process in Options 3, Section 8. The Exchange first

proposes to remove the current limitation that only allows routable Public Customer[66]

interest to route during the Opening Process. Instead, all routable market participant

interest will be allowed to route to align the Exchange's opening functionality with BX.[67]

Like BX, the Exchange believes that it will be beneficial to provide all market

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[64]   Id.

[65]   See Options 3, Section 8.

[66]   The term "Public Customer" means a person or entity that is not a broker or
       dealer in securities. See Option 1, Section 1(a)(41).

[67]   See BX Options 3, Section 8. See also Securities Exchange Act Release No.
       89731 (September 1, 2020), 85 FR 55524 (September 8, 2020) (SR-BX-2020-
       016) (noting throughout that BX permits all market participants to route during its
       Opening Process). At the end of the Opening Process, pursuant to GEMX
       Options 3, Section 8(j)(6) and subsection (i), the System will execute orders at the
       Opening Price that have contingencies (such as, without limitation, Reserve
       Orders) and non-routable orders, such as a 'Do-Not-Route' or 'DNR' Orders, to
       the extent possible. The System will only route non-contingency Public Customer
       orders, except that Public Customer Reserve Orders may route up to their full
       volume. For contracts that are not routable, pursuant to GEMX Options 3,
       Section 8(j)(6), such as DNR Orders and orders priced through the Opening Price,
       the System will cancel (1) any portion of a Do-Not-Route order that would
       otherwise have to be routed to the exchange(s) disseminating the ABBO for an
       opening to occur, or (2) any order or quote that is priced through the Opening
       Price. All other interest will be eligible for trading after opening.

participants with the opportunity to have their interest executed on away markets during the Opening Process. To effectuate the foregoing, the Exchange proposes to amend Options 3, Section 8(b) to remove the sentence providing that only Public Customer interest is routable during the Opening Process. The Exchange further proposes to make a related change in Options 3, Section 8(i)(7), which currently provides that the System will route routable Public Customer interest pursuant to Options 3, Section 10(c)(1)(A). Specifically, the Exchange proposes to remove the reference to Public Customer to indicate all routable interest will route in accordance with the Exchange's priority rule. The Exchange will also update the cross-cite to Options 3, Section 10(c)(1)(A), currently pointing to the Priority Customer priority overlay, to the more general priority rule in Options 3, Section 10(c). The Exchange further proposes to amend Options 3, Section 8(j)(6) to remove the references to "Public Customer." As amended, Section 8(j)(6) will provide: "The System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as "Do-Not-Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency orders, except that Reserve Orders may route up to their full volume."

In addition, the Exchange proposes to amend Options 3, Section 8(g)(1), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price.[68] Today, Section 8(g)(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

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

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. The Exchange now proposes to no longer round in the direction of the previous trading day's closing price and simply round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. The proposed changes are intended to simplify and 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.

The Exchange further proposes to amend Options 3, Section 8(i)(3), which currently describes the determination of Opening Quote Range ("OQR") boundaries in certain scenarios.[69] Specifically, the Exchange proposes to replace "are marketable against the ABBO" with "cross the ABBO" to more precisely describe the specified scenario within in this rule. The Exchange notes that this is not a System change, but rather a clarifying change around the applicability of the rule text. Lastly, the Exchange proposes a non-substantive change in paragraph (a)(1)(2) of Options 3, Section 8 to remove the extra instance of "market" from the first sentence.

Auction and Crossing Mechanisms

Facilitation and Solicited Order Mechanisms

The Exchange first proposes to make clarifying changes in Options 3, Section 11

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[69]   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.

(Auction Mechanisms). Today, Supplementary Material .02 to Options 3, Section 11

states that Responses[70] represent non-firm interest that can be canceled at any time prior

to execution, and that Responses are not displayed to any market participants. The

Exchange now proposes a non-substantive change to relocate this language into the

introductory paragraph of Options 3, Section 11 after the definition of "Response" for

better readability. The Exchange also proposes to add "or modified" after the "canceled"

to indicate that auction Responses may be canceled or modified at any time prior to

execution. This is not a change to current System behavior, but rather a clarification that

better aligns the rule text to existing functionality.

Crossing Orders

The Exchange proposes a non-substantive change to the description of QCC

Orders in Options 3, Section 12(c)(2) by removing "in" for better readability.

Price Improvement Mechanism

The Exchange proposes a number of changes to Options 3, Section 13 (Price

Improvement Mechanism for Crossing Transactions), some of which are System changes

to align with existing BX Price Improvement Mechanism ("BX PRISM") functionality

and others that are non-System changes that add greater clarity to current PIM behavior.

The Exchange proposes to amend Options 3, Section 13(b)(4) to add clarifying rule text

to the current sentence, which states, "The Crossing Transaction[71] may not be canceled,

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[70]   For purposes of Options 3, Section 11, a "Response" means an electronic message
         that is sent by Members in response to a broadcast message. A "broadcast
         message" is an electronic message sent by the Exchange to all Members upon
         entry of an order into one of the auction mechanisms listed within Options 3,
         Section 11 (i.e., Block, Facilitation, or Solicited Order Mechanisms).

[71]   A "Crossing Transaction" is comprised of the order the Electronic Access
         Member represents as agent (the "Agency Order") and a counter-side order for the

but the price of the Counter-Side Order may be improved during the exposure period."

The Exchange proposes to add "or modified" after the word "canceled" to make clear that

the Crossing Transaction may not be canceled or modified, but the Counter-Side Order

may be improved during the exposure period. This proposed change would not amend

the current System, rather it would bring greater clarity to the rule text that modifications

are not permitted unless the Counter-Side Order is being improved during the exposure

period.

The Exchange proposes to add rule text within Options 3, Section 13(b)(5) which

states, "Crossing Transactions submitted at or before the opening of trading are not

eligible to initiate an auction and will be rejected." The Exchange notes that this rule text

represents current System behavior. BX has a similar provision within BX Options 3,

Section 13(i)(E). The Exchange notes that this rule text will bring greater clarity to when

a Crossing Transaction would be eligible to initiate a PIM.

The Exchange proposes to amend the current PIM functionality within Options 3,

Section 13(c)(3). Today, during the exposure period, Improvement Orders[72] may not be

canceled, however, Improvement Orders may be modified to (i) increase the size at the

same price, or (ii) improve the price of the Improvement Order for any size up to the size

of the Agency Order. The Exchange proposes to amend this functionality so that

Improvement Orders may be canceled or modified similar to functionality on BX PRISM

today within BX Options 3, Section 13(ii)(A)(8). The modification and cancellation of

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full size of the Agency Order (the "Counter-Side Order"). See Options 3, Section
13(b).

[72]   Improvement Orders are responses entered by Members to indicate the size and
price at which they want to participate in the execution of the Agency Order. See
Options 3, Section 13(c)(1).

an Improvement Order through OTTO will be similar to the manner in which a Cancel

and Replace Order[73] would be handled outside of the auction process. For Improvement

Orders through SQF, the modification and cancellation of such orders will be handled by

sending new Improvement Orders that overwrite the existing Improvement Order with

updated price/quantity instructions.

Next, the Exchange proposes to amend Options 3, Section 13(d)(5), which

currently states, "If a trading halt is initiated after an order is entered into the Price

Improvement Mechanism, such auction will be automatically terminated without

execution." The Exchange proposes to instead provide, "If a trading halt is initiated after

an order is entered into the Price Improvement Mechanism, such auction will be

automatically terminated with execution solely with the Counter-Side Order." In the

event of a trading halt, since the Counter-Side Order has guaranteed that an execution

will occur at the same price as the Crossing Transaction or better, and Improvement

Orders offer no such guarantee, the Counter-Side Order is the only valid price at which to

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[73]   Cancel and Replace Orders shall mean a single message for the immediate
         cancellation of a previously received order and the replacement of that order with
         a new order. If the previously placed order is already filled partially or in its
         entirety, the replacement order is automatically canceled or reduced by the
         number of contracts that were executed. The replacement order will retain the
         priority of the cancelled order, if the order posts to the Order Book, provided the
         price is not amended, size is not increased, or in the case of Reserve Orders, size
         is not changed. If the replacement portion of a Cancel and Replace Order does
         not satisfy the System's price or other reasonability checks (e.g. Options 3,
         Section 15(b)(1)(A) and Options 3, Section 15(b)(1)(B)) the existing order shall
         be cancelled and not replaced. See Supplementary Material .02 to Options 3,
         Section 7 (as described above, the current definition will be moved to proposed
         Options 3, Section 7(f) with no substantive changes).

execute the Crossing Transaction. This is similar to functionality on BX PRISM at BX

Options 3, Section 13(ii)(C).[74]

The Exchange also proposes a System change to adopt a new same side execution

price check for PIM, which will be described in new subsection (d)(6) of Options 3,

Section 13 and will be functionally identical to BX PRISM. As proposed, Options 3,

Section 13(d)(6) will provide that if the PIM execution price would be the same or better

than an order on the limit order book on the same side of the market as the Agency Order,

the Agency Order may only be executed at a price that is at least $0.01 better than the

resting order's limit price. If such resting order's limit price is equal to or crosses the

initiating Crossing Transaction price, then the entire Agency Order will trade at the

initiating Crossing Transaction price with all better priced counter-side interest being

considered for execution at the initiating Crossing Transaction price. As noted above,

this price check will be functionally identical to the same side execution price check on

BX PRISM today.[75] Like BX, the proposed price check is designed to ensure that the

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[74]   BX Options 3, Section 13(ii)(C) provides that if the situations described in sub-
         paragraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at:
         (1) in the case of the BX BBO crossing the PRISM Order stop price, the best
         response price(s) or, if the stop price is the best price in the Auction, at the stop
         price, unless the best response price is equal to or better than the price of a limit
         order resting on the Order Book on the same side of the market as the PRISM
         Order, in which case the PRISM Order will be executed against that response, but
         at a price that is at least $0.01 better than the price of such limit order at the time
         of the conclusion of the Auction; or (2) in the case of a trading halt on the
         Exchange in the affected series, the stop price, in which case the PRISM Order
         will be executed solely against the Initiating Order. Any unexecuted PAN
         responses will be cancelled.

[75]   BX Options 3, Section 13(ii)(I) provides that if the execution price of the PRISM
         Auction would be the same or better than an order on the limit order book on the
         same side of the market as the PRISM Order, the PRISM Order may only be
         executed at a price that is at least $0.01 better than the resting order's limit price.
         If such resting order's limit price is equal to or crosses the stop price, then the

Exchange would not trade at prices that would lock or cross interest on the same side of

the market as the Agency Order where limit orders have rested and obtained priority to

execute at that price. In the event where a limit order arrives on the same side of the

market as the Agency Order and is at the same or better price than the initiating Crossing

Transaction price, the Exchange would execute the entire PIM order at the initiating

Crossing Transaction price. The execution takes place at this price because the PIM is

guaranteed an execution and the PIM agency side instructions would not allow an

execution to take place at a higher (lower) price than submitted for a buying (selling)

agency side PIM order. Considering that the limit order has arrived either at or better on

the same side as the Agency Order than the agency side price, the initiating Crossing

Transaction price is the only price at which the guaranteed execution can take place.

The following examples illustrate how the proposed PIM execution price check would

work:

***Example: PIM executes with Improvement Order at $0.01 better than a limit order on
the same side of the market as the Agency Order***

Firm Limit order to buy @ 1.40 arrives prior to the PIM auction beginning

GEMX BBO: 1.40 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated
PIM Improvement Order[76] to sell 20 @ 1.40 arrives

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entire PRISM Order will trade at the stop price with all better priced interest being
considered for execution at the stop price.

[76]   "Improvement Orders" are responses sent by Members during the PIM's exposure
period in response to the PIM that indicate the size and price at which they want
to participate in the execution of the Agency Order. See Options 3, Section
13(c)(1).

Auction concludes after timer and PIM Agency Order trades 20 with PIM Improvement Order @ 1.41; the Counter-Side Order[77] cancels

Example: PIM executes at Agency Price with all better priced interest when limit order on same side equals or crosses the initiating Crossing Transaction price

Assume GEMX BBO: 1.00 x 2.00

PIM Agency Order to buy 20 @ 1.50 arrives with an auto-match price of 1.50 indicated
PIM Improvement Order to sell 20 @ 1.40 arrives
During the exposure period, Firm Limit order to buy @ 1.50 arrives

Auction concludes after timer and PIM Agency Order trades 12 with PIM Improvement Order @ 1.50 and 8 with the Counter-Side Order @ 1.50 (i.e., the guaranteed execution price) because all better priced interest must trade at the initiating Crossing Transaction price when the limit order on the same side equals or crosses the initiating Crossing Transaction price.[78] The remainder of the Counter-Side Order and the remainder of the PIM Improvement Order cancel. The execution takes place at 1.50 because the PIM is guaranteed an execution, and the PIM agency side instructions would not allow an execution to take place at a higher price than the submitted 1.50 buying price for the agency side PIM order.

Finally, the Exchange proposes to amend Supplementary Material .02 to Options 3, Section 13 to add the following sentence: "It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction." BX has a similar prohibition within BX Options 3, Section 13(iii). The proposed new

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[77]   The "Counter-Side Order" is the counter-side order for the full size of the Agency Order that is entered into the PIM by the initiating Electronic Access Member. See Options 3, Section 13(b).

[78]   The order is allocated pursuant to Options 3, Section 13(d)(3) where the Counter-Side Order will be allocated the greater of 1 contract or 40%, which, in this case, equates to 8 contracts out of the 20 contracts. Thus, in this case, the Improvement Order is allocated 12 contracts to fully execute the 20 contracts of the original PIM Agency Order.

rule is intended to provide guidance to Members where certain behavior within a PIM

will not be considered a bona fide transaction.

Order Price Protection

The Exchange currently has a Limit Order Price Protection in Options 3, Section

15(a)(1)(A), which is a "fat finger" check designed to address risks to market participants

of human error in entering certain orders at unintended prices. Specifically, there is a

limit on the amount by which incoming limit orders to buy may be priced above the

Exchange's best offer and by which incoming limit orders to sell may be priced below

the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit

is established by the Exchange from time-to-time for orders to buy (sell) as the greater of

the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed $2.00,

or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%.

The Exchange proposes to replace the existing risk protection with an Order Price

Protection ("OPP") that would similarly prevent the execution of limit orders at prices

outside pre-set parameters. The proposed OPP will be functionally similar to the OPP

functionality currently offered by BX.[79] In particular, proposed Options 3, Section

15(a)(1)(A) will provide that OPP is a feature of the System that prevents limit orders at

prices outside of pre-set standard limits from being accepted by the System. Further,

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[79]   BX's OPP is currently memorialized in BX Options 3, Section 15(a)(1), which
         provides that OPP is a feature of the System that prevents certain day limit, good
         til cancelled, and immediate or cancel orders at prices outside of pre-set standard
         limits from being accepted by the System. BX's rule also provides that OPP
         applies to all options but does not apply to market orders. As described above,
         the Exchange is proposing to adopt an OPP rule that more accurately describes
         this functionality than BX's current OPP rule. BX will file a separate rule change
         to conform its OPP rule with the Exchange's proposed rule text.

OPP will reject incoming orders that exceed certain parameters according to the

following algorithm set forth in proposed Options 3, Section 15(a)(1)(A)(ii):

>   (a) If the better of the NBBO or the internal market BBO (the "Reference
>   BBO") on the contra-side of an incoming order is greater than $1.00,
>   orders with a limit more than the greater of the below will cause the order
>   to be rejected by the System upon receipt.
>
>   > (1) 50% less (greater) than such contra-side Reference Best Bid (Offer);
>   >   or
>
>   > (2) a configurable dollar amount not to exceed $1.00 less (greater) than
>   >   such contra-side Reference Best Bid (Offer) as specified by the
>   >   Exchange announced via an Options Trader Alert.
>
>   (b) If the Reference BBO on the contra-side of an incoming order is less than
>   or equal to $1.00, orders with a limit more than the greater of the below
>   will cause the order to be rejected by the System upon receipt.
>
>   > (1) 100% less (greater) than such contra-side Reference Best Bid (Offer);
>   >   or
>
>   > (2) a configurable dollar amount not to exceed $1.00 less (greater) than
>   >   such contra-side Reference Best Bid (Offer) as specified by the
>   >   Exchange announced via an Options Trader Alert.

The proposed OPP will be calculated using the better of the NBBO or the internal

market BBO (i.e., the Reference BBO) instead of the Exchange BBO as currently used

today, which will align to current BX functionality.[80] Like BX, the Exchange believes

that calculating OPP on the basis of the better of the NBBO or the internal market BBO

protects investors and the public interest where the internal market BBO is better than the

NBBO. In addition, the proposed OPP parameters will be the greater of a percentage

threshold or fixed dollar amount, similar to today's limit order price protection that uses

the greater of a percentage or fixed dollar threshold. The proposed parameters are

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[80]   See BX Options 3, Section 15(a)(1)(B).

identical to BX's OPP.[81] The Exchange believes that the proposed algorithm for OPP

would continue to provide a reasonable limit to the range where orders will be accepted.

As set forth in proposed Options 3, Section 15(a)(1)(A)(i), OPP will be

operational each trading day after the opening until the close of trading, except during

trading halts, which will be identical to current functionality.[82] The Exchange also

proposes in this paragraph to add identical language as BX, which will provide the

Exchange with discretion to temporarily deactivate OPP from time to time on an intra-

day basis if it is determined that unusual market conditions warranted deactivation in the

interest of a fair and orderly market. Like BX, the Exchange believes that it will be

useful to have the flexibility to temporarily disable OPP intra-day in response to an

unusual market event (for example, if dissemination of data was delayed and resulted in

unreliable underlying values needed for the Reference BBO). Members would be

notified of intra-day OPP deactivation and any subsequent reactivation by the Exchange

through the issuance of System status messages. Specifically, the Exchange proposes to

add in Options 3, Section 15(a)(1)(A)(i) that OPP may be temporarily deactivated on an

intra-day basis at the Exchange's discretion.

The following examples illustrate the application of the proposed OPP thresholds:

Example: An option priced less than or equal to $1.00

For a penny MPV option with a BBO on GEMX of $0.01 x $0.02, consider that the
configurable dollar amount is set to $0.05

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[81]   Id. The Exchange will initially set the fixed dollar configuration at $0.05,
         identical to BX.

[82]   See Options 3, Section 15(a)(1)(A) (currently providing that the limit order price
         protection does not apply to the opening process or during a trading halt).

If the incoming order was less than $1.00, and the Reference BBO is the internal market BBO, the System will reject buy orders priced higher than the greater of (i) $0.04 (100% greater than the contra-side Reference Best Offer of $0.02) or (ii) $0.07 ($0.02 offer + $0.05 configuration)

Example: An option priced greater than $1.00

For a penny MPV option with a BBO on GEMX of $1.01 x $1.02, consider that the configurable dollar amount is set to $0.05

If the incoming order was more than $1.00, and the Reference BBO is the internal market BBO, the System will reject buy orders priced higher than the greater of (i) $1.53 (50% greater than the contra-side Reference Best Offer of $1.02) or (ii) $1.07 ($1.02 offer + $0.05 configuration)

Post-Only Quoting Protection

The Exchange proposes to adopt an optional quoting protection for Market Makers that will be identical to current BX functionality.[83] This optional risk protection would allow Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt the new risk protection in Options 3, Section 15(a)(3)(C). As proposed, Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). A Post-Only Quote Configuration would re-price or cancel a Market Maker's quote that would otherwise lock or cross any resting order or quote[84] on the order book upon entry. Market Makers may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced

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[83]   See BX Options 3, Section 15(c)(3).

[84]   This would include any re-priced orders as described in the Re-Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6). As described above, ALOs may re-price.

and displayed by the System to one MPV below the current best offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).[85] When configured for cancel, Market Makers will have their quotes cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. Finally, the Exchange notes that similar to BX, this risk protection will not apply during an Opening Process because the order book is established once options series are open for trading.

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

Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example

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

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[85]   Options 3, Section 4(b)(6) provides that 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 either be re-priced and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, or immediately cancelled, as configured by the Member.

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

Re-priced Post-Only Quote Configuration – Non-Penny Interval Program Display and Execution Example

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

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

Kill Switch

As set forth in Options 3, Section 17, the Exchange offers an order cancellation Kill Switch, which is an optional tool that allows Members to initiate a message to the System to promptly cancel and restrict their order activity on the Exchange, or across both the Exchange and its affiliate, ISE. Members may submit a Kill Switch request to the System for certain identifier(s) ("Identifier") on either a user or group level.[86] Today, Members can log in through a graphical user interface ("GUI") to send a message to the Exchange to initiate the order cancellation Kill Switch.[87] As an alternative to the

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[86]   Identifiers include Exchange accounts, ports, and/or mnemonics. Thus, a Member using Kill Switch may elect to cancel orders for an individual Identifier (e.g., mnemonic) or any group of Identifiers (e.g., all mnemonics within one Member firm). Permissible groups must reside within a single Member firm. See Options 3, Section 17(a).

[87]   See Options 3, Section 17(a)(2)

GUI Kill Switch, Members may also send a message through one of the Exchange's order entry ports (i.e., FIX, Precise, and OTTO) to initiate the order cancellation Kill Switch.[88] Once a Member initiates the Kill Switch (either through the GUI or an order entry port), it will result in the cancellation of all existing orders for the requested Identifier(s). The Member will be unable to enter any additional orders for the affected Identifier(s) until the Member sends a re-entry request to the Exchange.[89]

Due to the lack of demand for the GUI Kill Switch by Members, the Exchange proposes to decommission this optional tool with the planned technology migration.[90] With the proposed changes, the Exchange seeks to streamline its product offerings and to reallocate Exchange resources to other business and risk management initiatives. While the Exchange will no longer offer this optional risk protection to Members through the GUI, it will continue to offer this functionality through FIX, Precise, and OTTO.

In addition, all Members may contact the Exchange's market operations staff to request that the Exchange cancel any of their existing bids, offers, or orders in any series of options.[91] Furthermore, the Exchange will continue to have System-enforced risk mechanisms that automatically remove orders for the Member once certain pre-set thresholds or conditions are met. This includes risk protections such as the market wide

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[88]   See Options 3, Section 17(a)(1).

[89]   See Options 3, Section 17(a)(3).

[90]   No Members have used the GUI Kill Switch for order cancellation in 2022. The Exchange will provide prior notice of the decommission to Members via Options Trader Alert.

[91]   See Options 3, Section 19.

risk protection[92] and cancel on disconnect.[93]

To effect the proposed decommission of the GUI Kill Switch for order cancellation, the Exchange proposes to amend Options 3, Section 17 by eliminating paragraph (a)(2) and related cross-cites within this rule. The Exchange will also renumber the paragraphs in this rule accordingly.

The Exchange notes that it previously amended its rules to decommission the quote removal Kill Switch that was available to Market Makers through the GUI.[94] The Exchange noted in SR-GEMX-2021-09 that Market Makers did not use the GUI Kill Switch to remove their quotes, but rather, utilized other means such as the mass purge request through SQF. In this case, the Exchange similarly notes that no Members use the GUI Kill Switch to cancel their orders but rather, utilize other means like the port Kill Switch through FIX, Precise, and OTTO to purge their existing orders from the System. As such, the Exchange believes that eliminating the GUI Kill Switch all together (including for orders as proposed herein) will streamline the Exchange's risk protection offerings in a manner that reflects Member use.

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[92]   The market wide risk protection automatically removes Member orders on the Exchange, or across both the Exchange and ISE, in either case as set by the Member, when certain firm-set thresholds are met. Once the thresholds are triggered, the Member must send a re-entry indicator to re-enter the System. See Options 3, Section 15(a)(1)(C).

[93]   When the OTTO or FIX Port detects the loss of communication with a Member'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 Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Section 18(f) (for OTTO) or Section 18(g) (for FIX) automatically cancel all orders. See Options 3, Section 18(c) and (d).

[94]   See Securities Exchange Act Release No. 93010 (September 15, 2021), 86 FR 52518 (September 21, 2021) (SR-GEMX-2021-09).

Data Feeds and TradeInfo

In connection with the technology migration, the Exchange proposes a number of enhancements to its current data feed offerings in Options 3, Section 23(a), many of which are intended to conform with current BX functionality, as specified below.

As set forth in Options 3, Section 23(a)(1), the Exchange offers the Nasdaq GEMX Depth of Market Data Feed ("Depth of Market Feed"), which currently provides aggregate quotes and orders at the top five price levels on GEMX, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for GEMX traded options. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on the Exchange and identifies if the series is available for closing transactions only. In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This information is provided for each of the top five price levels on the Depth Feed. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to no longer provide book information for the top five price levels, and instead provide full depth-of-book information. As such, the Exchange will delete language that relates to top five price level information in the rule text. The Exchange also proposes to add more specificity around what would be provided in the opening/reopening order imbalance information (namely, the size of matched contracts and size of the imbalance). The Exchange further proposes a technical change to correct an erroneous reference to "ISE" within the rule text. The proposed

changes will closely align the information provided on the Exchange's Depth of Market

Feed with that of BX's Depth of Market Feed, except the Exchange will not offer auction

and exposure notifications on its Depth of Market Feed like BX does today.[95] The

Exchange already offers auction and exposure notifications on the Nasdaq GEMX Order

Feed as described below.[96] As amended, Options 3, Section 23(a)(1) would provide:

> Nasdaq GEMX Depth of Market Data Feed ("Depth of Market Feed") is a data feed that provides full order and quote depth information for individual orders and quotes on the Exchange book and last sale information for trades executed on the Exchange. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on the Exchange and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance).

As set forth in Options 3, Section 23(a)(2), the Exchange offers the Nasdaq

GEMX Order Feed ("Order Feed"), which currently provides information on new orders

resting on the book (e.g. price, quantity and market participant capacity). In addition, the

feed also announces all auctions. The data provided for each option series includes the

symbols (series and underlying security), put or call indicator, expiration date, the strike

price of the series, and whether the option series is available for trading on GEMX and

identifies if the series is available for closing transactions only. The feed also provides

order imbalances on opening/reopening.

The Exchange now proposes to update the information that would be available on

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[95]   See BX Options 3, Section 23(a)(1). As discussed below, the Exchange is instead proposing to offer these notifications on the Nasdaq GEMX Order Feed. BX does not have a comparable order feed today.

[96]   BX does not have a comparable order feed today. However, the proposed data elements in the GEMX Order Feed already exist in the rules or technical specifications (for the Attributable Order content) of other options exchanges, as described below.

the Order Feed. In particular, the Exchange would include Attributable Order tags[97] (as

provided by the Member) and related data content around displayed order types and

specified order attributes (e.g., OCC account number, give-up information, CMTA

information).[98] The Exchange also proposes to add more specificity around what would

be provided in the opening/reopening order imbalance information (namely, the size of

matched contracts and size of the imbalance). This specifically aligns to the data

elements in both BX's Depth of Market Feed in BX Options 3, Section 23(a)(1) and the

Exchange's proposed Depth of Market Feed in proposed Options 3, Section 23(a)(1).

The Exchange will continue to provide auction notifications on the Order Feed, but will

relocate the existing language to the end of the rule and adopt new content by providing

that the proposed Order Feed will provide exposure notifications as well.[99] As amended,

Options 3, Section 23(a)(2) would provide:

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[97] As discussed above, an Attributable Order is a market or limit order which
      displays the user firm ID for purposes of electronic trading on the Exchange. See
      Options 3, Section 7(h).

[98] The Exchange notes that Cboe has similar attributable order functionality in Cboe
      Rule 5.6(c) as an order a user designates for display (price and size) that includes
      the user's executing firm ID or other unique identifier. While Cboe does not have
      a comparable data feed rule, Cboe's technical specifications indicate that it
      currently has Participant ID and Client ID tags available on its Multicast PITCH
      data feed. See Section 4.6 in
      https://cdn.cboe.com/resources/membership/US_EQUITIES_OPTIONS_MULTI
      CAST_PITCH_SPECIFICATION.pdf (relating to Participant ID or Client ID as
      optionally specified values).

[99] BX's Depth of Market Feed currently has identical content relating to auction and
      exposure notifications in BX Options 3, Section 23(a)(1). Exposure notifications
      are new with the introduction of routing and the removal of flash functionality in
      the Routing Filing. An exposure notification informs the market of an order that
      has arrived marketable against an ABBO and has a routing timer pursuant to the
      changes introduced to Options 5, Section 4 in the Routing Filing, while an auction
      notification is the notification of an auction for a Block, Facilitation, Solicited
      Order, or PIM auction.

Nasdaq GEMX Order Feed ("Order Feed") provides information on new orders resting on the book (e.g. price, quantity, market participant capacity and Attributable Order tags when provided by a Member). The data provided for each option series includes the symbols (series and underlying security), displayed order types, order attributes (e.g., OCC account number, give-up information, CMTA information), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance), auction and exposure notifications.

As set forth in Options 3, Section 23(a)(3), the Exchange offers the Nasdaq GEMX Top Quote Feed, which currently calculates and disseminates GEMX's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

The Exchange now proposes to harmonize certain features of this feed with BX's Top of Market Feed while retaining certain intended differences as specified below.[100] The Exchange first proposes to rename the Nasdaq GEMX Top Quote Feed to the Nasdaq GEMX Top of Market Feed ("Top Feed") to match the BX feed name. In addition, the Exchange proposes to make conforming changes to rename the Top Feed throughout Options 7, Section 6.C(iii) and Section 7.B. The Exchange further proposes

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[100]   See BX Options 3, Section 23(a)(2).

to no longer provide information for opening price, daily trading volume, high and low prices for the day. These are conforming changes that would align the information provided on the Exchange's Top Feed with information on BX's Top Feed.[101] The Exchange will continue to provide aggregated size information as a legacy holdover, which will be different than current BX functionality. Similarly, the Exchange will continue to provide opening/reopening order imbalance information on its Top Feed unlike BX. As amended, Options 3, Section 23(a)(3) will provide:

> Nasdaq GEMX Top of Market Feed ("Top Feed") calculates and disseminates GEMX's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information and for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

As set forth in Options 3, Section 23(a)(4), the Exchange offers the Nasdaq GEMX Trades Feed ("Trades Feed"), which currently displays last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The Exchange proposes to no longer provide information for opening price, daily trading volume, high and low prices for the day to align to the changes proposed for the Top Feed described above. As amended, Options 3, Section 23(a)(4) will provide:

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[101]   Id.

Nasdaq GEMX Trades Feed ("Trades Feed") displays last trade information. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only.

In addition, the Exchange proposes to no longer offer TradeInfo, which is a user interface set forth in Options 3, Section 23(b)(2) that permits Members to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo. Due to the lack of demand for this interface by Members,[102] the Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced Nasdaq platform with the technology migration.[103] The Exchange notes that FIX, FIX DROP,[104] and the Clearing Trade Interface ("CTI"),[105] which are available to all

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[102]   No Members logged into TradeInfo in 2022.

[103]   The Exchange will provide prior notice of the decommission to all Members through an Options Trader Alert.

[104]   FIX DROP is a real-time order and execution update message that is sent to a Member after an order been received/modified or an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) executions; (ii) cancellations; (iii) modifications to an existing order; and (iv) busts or post-trade corrections. See Options 3, Section 23(b)(3).

[105]   CTI is a real-time cleared trade update message that is sent to a Member after an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement ("CMTA") or The Options Clearing Corporation ("OCC") number; (ii) badge or mnemonic; (iii) account number; (iv) information which identifies the transaction type (e.g. auction type) for billing purposes; and (v) market participant capacity. See Options 3, Section 23(b)(1).

Members, can be used today to obtain order information that is currently available within TradeInfo, and FIX can be used to cancel orders today.

In connection with its proposal to retire TradeInfo, the Exchange also proposes to eliminate all references to TradeInfo in Options 7 (Pricing Schedule). Today, as set forth in Options 7, Section 6.C(ii)(3), the Exchange does not charge any fees for TradeInfo. With the proposed changes, the Exchange will amend Options 7 to delete Section 6.C(ii)(3) in its entirety.

Optional Risk Protections

The Exchange proposes to introduce optional quantity and notional value checks in new Options 3, Section 28, entitled "Optional Risk Protections." The proposed optional order risk protections will be functionally identical to the protections currently offered by BX.[106] Members may use this voluntary functionality through their FIX or Precise protocols to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, Members may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1)-(4):

(1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;

(2) Daily aggregate notional dollar value;

(3) Quantity per order; and

(4) Daily aggregate quantity

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106   See BX Options 3, Section 28. While BX's rule does not contain the level of granularity as proposed in the Exchange's rule, including how orders are rejected if any of the optional risk protection values are exceeded, the Exchange understands that BX's optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

Proposed paragraph (b) will provide that Members may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Members may modify their settings through Market Operations. Proposed paragraph (c) will provide that the System will reject all incoming aggregated Member orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the Member is exceeded. Proposed paragraph (d) will provide that the System will reject all incoming Member orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the Member is exceeded by the incoming order. The Exchange notes that the difference in handling between aggregate and individual order protections is necessary to allow for complete processing of the final order that puts a Member's configured value over the aggregate values configured. While individual orders can be directly measured against the configured values for (a)(1) and (a)(3), the aggregate values must be calculated after complete processing of an order and thus the rejection of orders begins upon the arrival of the next order after the aggregate values in (a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming aggregated orders after the (a)(2) or (a)(4) values configured by the Member have been exceeded:

Aggregate Quantity Limit = 800.

1. Member enters an Order to Buy 500 – Accepted
2. Member enters an Order to Buy 400 – Accepted (Member did not meet the configured limit of 800 with the first order of 500 at the time Member entered the second order)
3. Member enters an Order to Buy 1 – Rejected (Member already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the Member have been exceeded by the arriving order:

Quantity Per Order Limit = 800.

1. Member enters an Order to Buy 801 – Rejected (Member exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a Member sets a notional dollar value, a Market Order would not be accepted from that Member. This is because notional dollar value is calculated by using an order's specified limit price, and Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX or Precise. Additionally, all of the proposed settings will be firm-level.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[107] in general, and furthers the objectives of Section 6(b)(5) of the Act,[108] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As it relates to the elimination of fees for flash functionality and TradeInfo, the Exchange

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[107]   15 U.S.C. 78f(b).

[108]   15 U.S.C. 78f(b)(5).

believes that its proposal is consistent with Section 6(b) of the Act,[109] in general, and

furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,[110] in particular, in that it

provides for the equitable allocation of reasonable dues, fees, and other charges among

members and issuers and other persons using any facility, and is not designed to permit

unfair discrimination between customers, issuers, brokers, or dealers.

Generally, the Exchange's proposal is intended to add or align certain System

functionality with functionality currently offered on BX in order to provide a more

consistent technology offering across affiliated Nasdaq options exchanges. A more

harmonized technology offering, in turn, will simplify technology implementation,

changes, and maintenance by market participants of the Exchange that are also

participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks

to provide greater harmonization between the rules of the Exchange and its affiliates,

which would result in greater uniformity, and less burdensome and more efficient

regulatory compliance by market participants. As such, the proposal would foster

cooperation and coordination with persons engaged in facilitating transactions in

securities and would remove impediments to and perfect the mechanism of a free and

open market and a national market system. The Exchange believes that more consistent

rules will increase the understanding of the Exchange's operations for market participants

that are also participants on the Nasdaq affiliated options exchanges, thereby contributing

to the protection of investors and the public interest. The proposal also seeks to

memorialize existing functionality and add more granularity in the Exchange's rules to

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[109]   15 U.S.C. 78f(b).

[110]   15 U.S.C. 78f(b)(4) and (5).

describe how existing functionality operates today. The Exchange believes that such

changes would remove impediments to and perfect the mechanism of a free and open

market and a national market system because the proposed changes would promote

transparency in Exchange rules and reducing potential confusion, thereby ensuring that

Members, regulators, and the public can more easily navigate the Exchange's Rulebook

and better understand how options trading is conducted on the Exchange.

Routing Changes

The Exchange believes that the proposed amendments throughout Options 3 and

Options 7 to conform to the Routing Filing is consistent with the Act. As discussed

above, the Routing Filing harmonizes the Exchange's routing functionality with that of

BX.[111] As part of this harmonization, the Routing Filing adopts or harmonizes routing

strategies on the Exchange that are substantially identical to BX, (DNR, FIND, and

SRCH), and eliminates existing Exchange routing functionality that BX does not offer

today (flash functionality and Sweep Orders). The proposed changes to Options 3 and

Options 7 herein will therefore ensure that the Rules conform to the amendments in the

Routing Filing by removing references to flash functionality and Sweep Orders,

eliminating do-not-route orders as an order type and describing it instead as a DNR

routing strategy to harmonize with BX, and also making clear which routing strategies

may now be utilized when submitting an order type. The Exchange believes that the

proposed changes will bring greater clarity to the Rulebook, which would benefit market

participants and investors by reducing potential confusion.

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[111]   As discussed above, the Routing Filing was filed by ISE to amend ISE Options 5.
Because GEMX Options 5 incorporates ISE Options 5 by reference, amendments
to ISE Options 5 are accordingly integrated as amendments to GEMX Options 5.
See supra note 3.

The Exchange's proposal to remove pricing related to flash functionality from Options 7 is reasonable, equitable, and not unfairly discriminatory because flash functionality would no longer be available to any Member. It is reasonable to remove the fees related to flash orders and the references to flash orders from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. Additionally, it is equitable and not unfairly discriminatory to remove the fees related to flash orders and the references to flash orders from the Pricing Schedule because no Member would be able to utilize the flash functionality once it is removed from the System.

<u>Bulk Message</u>

The Exchange believes that its proposal to memorialize its bulk message functionality is consistent with the Act as it will codify existing functionality, thereby promoting transparency in the Exchange's rules and reducing any potential confusion.[112] 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 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. As noted above, other options exchanges like Cboe currently offer similar bulk messaging functionality that allow their market participants to submit block quantity quotes in a single electronic message.[113]

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[112]   As discussed above, this existing functionality is currently described in the Exchange's publicly available technical specifications. See supra note 13.

[113]   See supra note 16.

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.[114] Bulk message functionality provides Market Makers with a means to help them satisfy these obligations.

Order Types

The Exchange believes that the proposed changes to the rules governing Exchange order types are consistent with the Act. As discussed above, the proposed changes consist of several functional enhancements to align the Exchange's order types to existing BX order types, and rule adjustments that add more specificity and clarity to existing order types.

Market Orders

The Exchange believes that the proposed changes to the definition of Market Orders in Options 3, Section 7(a) are consistent with the Act. The proposed intra-day cancel timer feature mirrors existing BX functionality in BX Options 3, Section 7(a)(5), and would provide Members with additional flexibility and control to bring the Market Order back to the Member so they can get an execution on another venue by canceling unexecuted Market Orders after a certain period of time. The Exchange believes it is appropriate to offer this feature intra-day because the Exchange already has a separate

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[114]   See Options 2, Sections 4 and 5.

opening delay timer that provides protection to the market during the Opening Process as discussed above.

Intermarket Sweep Orders

The Exchange believes that the proposed changes to the definition of ISOs in Options 3, Section 7(b)(5) are consistent with the Act. As discussed above, the proposed changes are intended to add more granularity and more closely align the level of detail in the ISO rule with BX's ISO rule in BX Options 3, Section 7(a)(6) by specifying how the Exchange would handle ISOs, including how ISOs may be submitted and when. As such, the Exchange believes that its proposal will promote transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges.[115]

Furthermore, the proposed changes do not amend current ISO functionality except for the proposed stipulation that ISOs must have a TIF designation of IOC. Today, Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires on the day it is entered. The Exchange believes it is appropriate to no longer allow non-IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute.   This is also consistent with how BX currently handles ISOs in that BX only allows ISOs to be entered as IOC.

All-or-None Orders

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[115]   As noted above, BX's ISO rule also currently states that "ISOs may be entered on the Order Book or into the PRISM Mechanism pursuant to Options 3, Section 13(ii)(K)." The Exchange will file a separate rule change to add similar language as BX relating to how ISOs may be entered on the Exchange.

The Exchange believes that the proposed changes to the definition of AON Orders in Options 3, Section 7(c) are consistent with the Act. As discussed above, the Exchange is memorializing current System behavior by specifying how AON Orders will execute against multiple, aggregated orders to align with the level of detail in BX Options 3, Section 7(a)(4)(A). The proposed description of the handling of AON Orders is consistent with the Exchange's allocation methodology in Options 3, Section 10 by making clear that because of the size contingency of the AON Order (i.e., executed in its entirety or not at all), those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Finally, the proposed changes to add that AON Orders may not be submitted during the Opening Process will better articulate current System behavior, and aligns to the level of detail currently in BX's AON rule at BX Options 3, Section 7(a)(7).

Stop and Stop Limit Orders

The Exchange believes that the proposed changes to the definition of Stop Orders and Stop Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent with the Act. The Exchange is proposing to codify current System behavior by adding that Stop Orders and Stop Limit Orders will be cancelled if they are immediately electable upon receipt. As discussed above, the purpose of each of these order types is to not execute upon entry, and instead rest in the System until the market reaches a certain price level, at which time the order could be executed. A Stop Order or Stop Limit Order that is immediately electable upon receipt would therefore negate the purpose of this order type, so the Exchange believes it is appropriate to cancel such orders to ensure that

Members are able to use these order types to achieve their intended purpose. As noted above, the proposed changes to codify current Stop and Stop Limit Order handling will align the Exchange's rules with Phlx's Stop and Stop Limit Order rules.[116]

The Exchange believes that the proposed changes to specify current System functionality that Stop and Stop Limit Orders may only be entered into FIX or Precise will make clear that these order types are only available to be entered through two of the three order entry protocols offered by the Exchange (i.e., FIX, Precise, and OTTO). As such, the proposed changes will promote transparency in the Exchange's rules and reduce any potential confusion.

Cancel and Replace Orders

The Exchange believes that the proposed changes to the rule governing Cancel and Replace Orders would promote clarity and make the rules easier to navigate. As discussed above, these are non-substantive changes to relocate the rule from Supplementary Material .02 to Options 3, Section 7 into the main body of the order types rule at Options 3, Section 7(f), updating incorrect cross-cites therein, and adding more granularity around how the Exchange will treat the cancellation and replacement of Reserve Orders.

Reserve Orders

The Exchange believes that the proposed changes to the Reserve Order rule at Options 3, Section 7(g) are consistent with the Act. The Exchange is proposing to add more granularity around how Members may elect to refresh the display quantity for the Reserve Order. The Exchange notes that the new rule text does not have any impact on

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[116]   See supra notes 34 and 36.

the priority rules of the displayed or non-displayed portion of the Reserve Order. This refresh feature for Reserve Orders is intended to provide more flexibility and opportunities for Members to add displayed liquidity to the Exchange, which, in turn, benefits all market participants through more trading opportunities and enhanced price discovery. As discussed above, the proposed changes do not amend current functionality, but rather is intended to promote transparency around the current operation of Reserve Orders. Further, the Exchange believes that the non-substantive changes in the Reserve Order rule to renumber and reformat the paragraphs therein, and make corrective changes as described above, are consistent with the protection of investors and the public interest because they will simply make the Exchange's rules easier to navigate, thereby reducing any potential confusion. As noted above, other options exchanges like Cboe currently offer Reserve Orders that have similar refresh features.[117]

Attributable Orders

The Exchange believes that it is consistent with the Act to delete existing rule text in Options 3, Section 7(h), which currently indicates that Attributable Orders may be available for specified classes of securities, and to make a corrective change to "a<u>n</u> Options Trader Alert." Because Attributable Orders are available for all classes of securities today, the Exchange is deleting this language as inaccurate. The Exchange believes that the proposed changes will promote transparency in the Exchange's rules.

Customer Cross Orders

The Exchange believes that the non-substantive amendment in Options 3, Section 7(i) to add that Customer Cross Orders may trade in accordance with Options 3, Section

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[117]   See <u>supra</u> note 39.

12(a) is consistent with the protection of investors and the public interest because the

proposal will simply add a cross reference in the Customer Cross Order rule to Section

12(a), which currently describes in detail how this order type would execute on the

Exchange, thereby adding clarity to how Customer Cross Orders function today.

Qualified Contingent Cross Orders

The Exchange believes that the proposed changes to the QCC Order rule in

Options 3, Section 7(j) to add a reference to "QCC" and to provide that QCC Orders will

trade in accordance with Options 3, Section 12(c) are consistent with the Act because the

changes are merely intended to add greater clarity to how QCC Orders function today.

The Exchange further believes that specifying that QCC Orders may only be entered

through FIX or Precise will better articulate current System behavior, and will make clear

that QCC Orders are available to be entered through only two of the three order entry

protocols currently offered by the Exchange (i.e., FIX, Precise, and OTTO), thereby

reducing any potential confusion.

Preferenced Orders

The Exchange believes that its proposal to add a definition of Preferenced Orders

in Options 3, Section 7(l) is consistent with the Act. While Preferenced Orders are

currently described in Options 2, Section 10, the Exchange believes that it would be

useful to have order types centralized within one rule to make the Rulebook easier to

navigate for market participants. As noted above, Phlx similarly lists out Directed Orders

(akin to Preferenced Orders) in its order types rule at Phlx Options 3, Section 7(b)(11).

Add Liquidity Orders

The Exchange believes that the proposed changes to the ALO rule in Options 3, Section 7(n) are consistent with the Act. As discussed above, the Exchange is enhancing current ALO functionality to reflect that the Exchange will handle ALOs in a consistent manner with the new continuous re-pricing mechanism that is being proposed concurrently in the Re-Pricing Filing as proposed Options 3, Section 5(d) in situations where the ALO would not lock or cross an order or quote on the System, but would lock or cross the NBBO.[118] The Exchange therefore believes that the proposed changes will make clear how the Exchange will handle ALOs under the new re-pricing mechanism. The ALO order type was adopted to provide market participants greater control over the circumstances in which their orders are executed. As noted above, the purpose of an ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange continues to believe that ALOs, as amended under this proposal, will continue to accommodate this strategy. The proposed order handling for ALOs is consistent with how ALOs are handled on BX today.[119]

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[118]   See supra note 43.

[119]   See BX Options 3, Section 7(a)(12).

The Exchange also believes that adding "or quotes" in the ALO rule at Options 3, Section 7(n) is consistent with the Act. Today, if at the time of entry, an ALO would lock or cross one or more non-displayed orders or quotes on the Exchange, the ALO will be cancelled or re-priced in the manner specified within the ALO rule. Adding this rule text will bring greater clarity around current ALO behavior.

The Exchange further believes that the proposed addition that ALOs may only be submitted when an options series is open for trading will make clear ALOs will not be accepted during the Opening Process as the order book is not available. The proposed changes codify existing System behavior, and will therefore promote transparency in the Exchange's rules.

Opening Sweep

The Exchange believes that the proposed changes to the Opening Sweep rule in Options 3, Section 7(t) are consistent with the Act. As discussed above, the Exchange is codifying current System behavior and providing additional context to the rule in a manner that is consistent with Phlx's Opening Sweep rule in Phlx Options 3, Section 7(b)(6). The Exchange therefore believes that the proposed changes promote greater transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, because an Opening Sweep is an IOC order submitted by a Market Maker during the Opening Process, the Exchange is making clear that Opening Sweeps are entered though SQF in the proposed rule text. The Exchange also believes that it is appropriate to specify that Opening Sweeps are not subject to any risk protections in Options 3, Section 15 (except Automated Quotation Adjustments) because the Opening Process itself has boundaries (notably, the Quality Opening Market

and the Opening Quote Range) within which orders will be executed. Finally, the proposed language relating to Opening Sweep participation in the Opening Process and cancellation upon the open merely provides additional context in the order type rule. As noted above, Opening Sweeps are already described in the opening rule today in Options 3, Section 8, and apply only during the Opening Process.

Time in Force

The Exchange believes that the proposed changes to the TIF rules are consistent with the Act. As discussed above, the Exchange believes that certain existing functionality currently described as an "order type" in Options 3, Section 7 would be more precisely described as a TIF attribute that designates the basic parameters of an order type. Relocating and centralizing the existing TIF rules into proposed Supplementary Material .02 to Options 3, Section 7 will therefore clearly delineate these order attributes and make the proposed rules easier to navigate. Codifying the definition of "TIF" in proposed Supplementary Material .02 will add greater clarity and transparency to the Exchange's rules in a manner consistent with BX Options 3, Section 7(b).

The Exchange believes that the adjustments in proposed Supplementary Material .02(a) to Options 3, Section 7 to add that Day orders may be entered through FIX, OTTO, or Precise will add further granularity and clarity to the Exchange's rules. The proposed changes provide additional detail about current functionality in a manner that is consistent with the level of detail in BX's Day order.[120]

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[120]   See supra note 51.

The Exchange believes that the adjustments to the relocated GTC and GTD rules in proposed Supplementary Material .02(b) and (c) will add further granularity and clarity to how these TIFs operate today. The Exchange further believes that aligning the level of detail in the GTD rule to the GTC rule, as described above, is appropriate because these two TIFs are meant to be functionally similar except the manner in which they persist in the System.

The Exchange believes that the proposed changes to the relocated IOC rule in proposed Supplementary Material .02(d) will promote greater transparency in the Exchange's rules by providing more granularity to current IOC functionality. Further, the changes conform the Exchange's IOC rule to BX's IOC rule, thereby promoting consistency across the rules of the Nasdaq affiliated options exchanges. Specifically, the proposed changes to remove the word "limit" will make clear that IOC orders may be sent as either a Market or Limit Order today, identical to BX IOC orders.[121] The proposed changes to state that IOC orders are not eligible for routing, and that IOC orders may be entered through FIX, OTTO, Precise, or SQF, will codify current IOC behavior in a manner that is consistent with BX's IOC rule.[122]

As it relates to the proposed changes to memorialize the various risk protections that are excluded from applying to Market Maker IOC orders entered through SQF, the Exchange believes this is appropriate because only Market Makers utilize SQF to enter IOC orders. As discussed above, Market Makers are professional traders with more sophisticated infrastructures than other market participants, and are able to manage their

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[121]   See supra note 52.

[122]   See supra notes 53 – 54.

risk through their own risk settings in addition to the risk protections required by the
Exchange. The Exchange will continue to apply the specified risk protections on IOC
orders entered through FIX, OTTO, and Precise, which are used by the other market
participants. The proposed changes will harmonize the Exchange's IOC rule with BX's
IOC rule.[123] Further, the proposal to add substantially similar exclusionary language into
the SQF rule itself at Supplementary Material .03(c) to Options 3, Section 7 will make
clear that these risk protections will not apply to IOC orders entered through SQF.

Specifying in the proposed IOC rule that orders entered into the Exchange's
various auction and crossing mechanisms are considered to have a TIF of IOC
memorializes current System behavior, and is intended to bring greater transparency in
how these order types are handled today. As noted above, BX currently has substantially
similar language in its IOC rule for BX PRISM orders in BX Options 3, Section 7(b)(2).

Lastly, the Exchange believes that the adjustments to the relocated OPG rule in
proposed Supplementary Material .02(e) to Options 3, Section 7 will add granularity and
clarity to how OPG orders operate, and will conform the OPG rule with the level of detail
currently in BX's OPG rule in BX Options 3, Section 7(b)(1). As discussed above, the
Exchange is proposing to enhance OPG functionality to allow both Market and Limit
OPG orders whereas today, only Limit OPG orders are allowed. This harmonizes OPG
functionality with BX OPG functionality. The other modifications to replace "opening
rotation" with "Opening Process," stating OPG orders may not route, and indicating that
OPG orders are not subject to the protections listed in Options 3, Section 15 (except Size
Limitation) all memorialize current OPG behavior, and align to the current BX OPG rule.

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[123]   See supra notes 58 – 59.

As discussed above, the Exchange does not apply any of the risk protections in Options 3, Section 15 (except Size Limitation) because the Opening Process itself has boundaries within which orders will be executed.

Opening Process

The Exchange believes that the proposed changes to the Opening Process in Options 3, Section 8 are consistent with the Act. As discussed above, the Exchange is proposing to remove the current limitation that only allows Public Customers interest to route during the opening, and will instead allow all market participant interest to route. The proposed changes will serve to more closely align the Exchange's Opening Process with BX's Opening Process. Like BX, the Exchange believes that it will be beneficial to provide all market participants with the opportunity to have their interest executed on away markets during the Opening Process. The Exchange further believes that the related changes to remove references to "Public Customer" throughout Options 3, Section 8, and to update the cross-cite currently pointing to the Priority Customer priority overlay to the more general priority rule, will add clarity, transparency, and internal consistency to Exchange rules regarding the proposed handling of routable interest during the Opening Process.

The Exchange believes that its proposal to no longer round in the direction of the previous trading day's closing price and simply round up to the MPV, if the mid-point of the highest and lowest of the Potential Opening Prices is not expressed as a permitted MPV, will simplify and bring greater transparency to the Opening Process, to the benefit of investors. 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. The Exchange believes this may promote greater efficiency in the

marketplace especially in view of the continued growth in the number of options today.

The Exchange further believes that the proposed changes to replace "are

marketable against the ABBO" with "cross the ABBO" will better articulate how the

Exchange currently determines the OQR boundaries in the scenario specified in Options

3, Section 8(i)(3). Lastly, the Exchange believes that the non-substantive change in

paragraph (a)(1)(2) of Options 3, Section 8 will bring greater clarity to the Rulebook.

Auction and Crossing Mechanisms

Facilitation and Solicited Order Mechanisms

The Exchange believes that its proposal to relocate the rule text relating to

Responses from Supplementary Material .02 to Options 3, Section 11 into the

introductory paragraph of Options 3, Section 11, and adding that Responses can be

modified, is consistent with the Act. The Exchange is relocating this language into the

introductory paragraph of Options 3, Section 11 after the definition of "Response" for

better readability. The proposed change to add "or modified" to indicate that Responses

may be canceled or modified any time prior to execution better aligns the rule text to

current System behavior.

Crossing Orders

The Exchange believes that the non-substantive change to the description of QCC

Orders in Options 3, Section 12(c)(2) will bring greater clarity to the Rulebook.

Price Improvement Mechanism

The Exchange's proposal to amend Options 3, Section 13(b)(4) to clarify the

current rule text by adding the words "or modified" after "canceled" is consistent with the

Act because the additional text will make clear that a Crossing Transaction may not be modified unless the Counter-Side Order is being improved during the exposure period.

The Exchange's proposal to add clarifying rule text within Options 3, Section 13(b)(5) which states, "Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected" is consistent with the Act because it will bring greater clarity to when a Crossing Transaction is currently eligible to initiate a PIM. The PIM considers both the NBBO and local book for its entry price validation and therefore requires an opening for the PIM to begin.

The Exchange's proposal to amend the current PIM functionality within Options 3, Section 13(c)(3) to permit Improvement Orders to be canceled or modified is consistent with the Act. The Exchange proposes to amend this functionality so that Improvement Orders may be canceled or modified similar to functionality on BX today within Options 3, Section 13(ii)(a)(8). Today, during the exposure period, Improvement Orders may not be canceled and Improvement Orders may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order. The modification and cancellation of an Improvement Order through OTTO will be similar to the manner in which a Cancel and Replace Order would be handled outside of the auction process. For Improvement Orders through SQF, the modification and cancellation of such orders will be handled by sending new Improvement Orders that overwrite the existing Improvement Order with updated price/quantity instructions. Improvement Orders are not visible to other auction participants, including the Agency Order. The Exchange believes that providing

responders with flexibility to cancel or modify their Improvement Orders may encourage

market participants to respond to more auctions, including PIM.

The proposal to amend Options 3, Section 13(d)(5) to permit an auction to

automatically terminate upon the occurrence of a trading halt with execution solely with

the Counter-Side Order is consistent with the Act. This functionality would be similar to

rule text within BX Options 3, Section 13(ii)(C). The Exchange believes that utilizing

the price of the Counter-Side Order to execute the Crossing Transaction promotes just

and equitable principles of trade, and fosters cooperation and coordination with persons

engaged in facilitating transactions in securities since the Counter-Side Order has

guaranteed that an execution will occur at the same price as the Crossing Transaction, or

better, prior to the trading halt, and Improvement Orders offer no such guarantee, the

Counter-Side Order is the only valid price at which to execute the Crossing Transactions,

and the Counter-Side Order is the appropriate contra-side.[124]

The Exchange believes that the proposed System change to adopt a new same side

execution price check for PIM in new subsection (d)(6) of Options 3, Section 13 is

consistent with the Act. As discussed above, this feature would be functionally identical

to BX PRISM in BX Options 3, Section 13(ii)(I). Like BX, the proposed price check is

designed to ensure that the Exchange would not trade at prices that would lock or cross

interest on the same side of the market as the Agency Order where limit orders have

rested and obtained priority to execute at that price. In the event where a limit order

arrives on the same side of the market as the Agency Order and is at the same or better

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[124] The Exchange notes that trading on the Exchange in any option contract will be
halted whenever trading in the underlying security has been paused or halted by
the primary listing market.

price than the initiating Crossing Transaction price, the Exchange would execute the

entire PIM transaction at the initiating Crossing Transaction price. The execution takes

place at this price because the PIM is guaranteed an execution and the PIM agency side

instructions would not allow an execution to take place at a higher (lower) price than

submitted for a buying (selling) agency side PIM order. Considering that the limit order

has arrived either at or better on the same side as the Agency Order than the agency side

price, the initiating Crossing Transaction price is the only price at which the guaranteed

execution can take place.

Finally, the proposal to amend Supplementary Material .02 to Options 3, Section

15 to add a sentence which provides, "It will be considered a violation of this Rule and

will be deemed conduct inconsistent with just and equitable principles of trade and a

violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order

(initiating an auction) and also submits its own Improvement Order in the same auction,"

is consistent with the Act.   BX has a similar prohibition within Options 3, Section 13(iii).

The proposed new rule is designed to prevent fraudulent and manipulative acts and

practices, to promote just and equitable principles of trade, by providing guidance to

Members where certain behavior within a PIM will not be considered a bona fide

transaction.

Order Price Protection

The Exchange believes that its proposal to replace its current Limit Order Price

Protection with a similar "fat finger" check called Order Price Protection in Options 3,

Section 15(a)(1)(A) is consistent with the Act. The proposed OPP would similarly

prevent the execution of limit orders at prices outside pre-set numerical or percentage

parameters, and is designed to prevent limit orders entered at clearly unintended prices from executing in the System to the detriment of market participants. The proposed risk protection is also functionally similar to BX's OPP in BX Options 3, Section 15(a)(1), and therefore is not novel.[125] Similar to BX, the Exchange believes that the proposed fixed dollar amount and percentage parameters will protect against erroneous executions, while also allowing orders to execute within a reasonable range.

The Exchange believes that using the Reference BBO (i.e., better of the NBBO or the internal market BBO) to calculate the proposed OPP, identical to current BX OPP functionality, will similarly protect investors and the public interest where the internal market BBO is better than the NBBO.

The Exchange further believes that its proposal to add language allowing Exchange discretion to temporarily deactivate OPP on an intra-day basis is consistent with the Act. BX has identical language today in BX Options 3, Section 15(a)(1)(A)(i), and similar to BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (e.g., if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and orderly market. This will promote just and equitable principles of trade and ultimately protect investors.

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[125]   As noted above, the Exchange is proposing to adopt an OPP rule that more accurately describes the proposed functionality than BX's current OPP rule, so BX will align its current OPP rule to the Exchange's proposed rule text in a separate rule filing.

Post-Only Quoting Protection

The Exchange's proposal to adopt a new Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) to permit Market Makers to prevent their quotes from removing liquidity from the Exchange's order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to Market Makers. This optional risk protection would enable Market Maker to better manage their risk when quoting on the Exchange. As noted above, BX offers identical functionality today in BX Options 3, Section 15(c)(3).

The proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the Exchange's order book upon entry, thereby protecting investors and the general public as Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers would utilize the proposed risk protection to avoid unintentionally taking liquidity with resting interest[126] on the order book. As a result of taking liquidity, Market Makers would incur a taker fee that may impact the Market Maker's ability to provide liquidity and meet quoting obligations. Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing[127] and enhanced allocations.[128] Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing resting

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126　　As noted above, this would include any re-priced orders as described in the Re-Pricing Filing as proposed Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Options 3, Section 4(b)(6). As discussed above, ALOs may re-price.

127　　See Options 7, Section 3.

128　　See Options 3, Section 10.

interest on the order book, which will lead to enhanced liquidity on the Exchange and in turn will benefit and protect investors and the public interest through the potential for greater volumes of orders and executions on the Exchange.

The Exchange does not believe that introducing this Post-Only Quote Configuration will unfairly discriminate among market participants. Today, all Members may utilize the existing Add Liquidity Order type to prevent orders from removing liquidity from the Exchange's order book upon entry. The Post-Only Quote Configuration is available to Market Makers only as a risk protection. Unlike other market participants, Market Makers have certain obligations on the market, such as requirements to provide continuous two-sided quotes on a daily basis[129] and are subject to various obligations associated with providing liquidity on the market.[130] Market Makers are liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted to allow them to manage their risk more effectively.[131] The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on the Exchange and protects investors and the public interest, thereby enhancing market structure by allowing Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and

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[129]   See Options 2, Section 5(e).

[130]   See Options 2, Section 4.

[131]   Options 3, Section 15(a)(3) currently sets forth the Anti-Internalization and
         Quotation Adjustments Protections that are available today to Market Makers.

attracting greater participation by Market Makers. Also, an increase in the activity of

Market Makers in turn facilitates tighter spreads.

Kill Switch

The Exchange does not believe that the proposed decommission of the GUI Kill

Switch for order cancellation will affect the protection of investors or the public interest

or the maintenance of a fair and orderly market because no Members have used the GUI

Kill Switch risk protection in 2022.[132] The Exchange does not charge any fees for the

GUI Kill Switch. In addition, the Exchange notes that the use of this tool is completely

optional, and the Exchange will continue to offer substantially similar Kill Switch

functionality through FIX, Precise, and OTTO. As set forth in the Kill Switch rule, the

GUI Kill Switch allows for the cancellation and restriction of orders for the requested

Identifier(s) on a user or group level, whereas the port Kill Switch allows for cancellation

and restriction of orders for the requested Identifier(s) on a user level.[133] While the GUI

Kill Switch had more optionality around how Members may combine the Kill Switch

request by Identifier(s), no Members have used the GUI Kill Switch risk protection this

year. Furthermore, Members will retain the ability to contact market operations staff to

manually purge their orders from the market. In addition, the Exchange will continue to

implement System-enforced risk mechanisms that automatically remove orders for the

Member once certain pre-set thresholds or conditions are met (i.e., market wide risk

protection and cancel on disconnect).

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[132]   As noted above, the Exchange will provide prior notice of the decommission to all
         Members via Options Trader Alert.

[133]   See Options 3, Section 17(a)(1) and (2).

Also, the Exchange believes that the low usage rate for the GUI Kill Switch does

not warrant the continuous resources necessary for System support of such tools. As a

result, the Exchange believes that the proposal will remove impediments to and perfect

the mechanism of a free and open market and a national market system by allowing the

Exchange to reallocate System capacity and resources currently used to maintain this

functionality to the development and maintenance of other business initiatives and risk

management products.

As noted above, the Exchange previously amended its rules to decommission the

quote removal Kill Switch that was available to Market Makers through the GUI.[134]

Similar to the GUI Kill Switch for quote removal, the Exchange has found that no

Members use the GUI Kill Switch to cancel their orders, but rather, utilize other means to

purge their existing orders from the System. The Exchange therefore believes that

eliminating the GUI Kill Switch all together (including for orders as proposed herein)

will streamline the Exchange's risk protection offerings in a manner that reflects Member

use.

Data Feeds and Trade Information

The Exchange believes that the proposed changes to the current data feed

offerings in Options 3, Section 23(a) are consistent with the Act. Specifically, the

Exchange believes that the proposed changes to its Depth of Market Feed to provide full

depth-of-market information will serve to more closely align the information provided on

the Exchange's Depth of Market Feed with that of BX's Depth of Market Feed in BX

Options 3, Section 23(a)(1), thereby ensuring a more consistent technology offering

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[134]   See supra note 94.

across the Nasdaq affiliated options exchanges. The Exchange also believes that the

modified Depth of Market Feed will help to protect a free and open market by providing

additional data to the marketplace. The Exchange further believes that the proposed

changes to add more specificity around what would be provided in the opening/reopening

order imbalance information, and to correct an erroneous reference to "ISE" in the Depth

of Market Feed rule will promote transparency and clarity in the Exchange's rules.

The Exchange believes that the proposed changes to the Order Feed around what

type of information would be available on this data feed offering, as further described

above, will promote clarity and transparency in the Exchange's rules. Furthermore, the

proposed data elements in the Order Feed are based on data elements that currently exist

on other markets. For instance, the specificity around what would be provided in the

opening/reopening order imbalance information, as well as the auction and exposure

notifications are identical to the content within BX's Depth of Market Feed in BX

Options 3, Section 23(a)(1). As noted above, the Attributable Order content is similar to

the data elements on Cboe's current multicast PITCH feed.[135]

The Exchange believes that the proposed changes to the existing Top Quote Feed

to rebrand into the Top Feed, to no longer provide information for opening price, daily

trading volume, and high and low prices for the day, will serve to further align the

Exchange's Top Feed with BX's Top Feed in BX Options 3, Section 23(a)(2), thereby

ensuring a more consistent technology offering across the Nasdaq affiliated options

exchanges.

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[135]   See supra note 98.

The proposed changes to the Trades Feed to no longer provide information for opening price, daily trading volume, and high and low prices for the day are intended to align to the proposed changes to the Top Feed described above. The Exchange believes that removing this language will promote clarity and transparency in the Exchange's rules.

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from Members.[136] The Exchange does not assess a fee for TradeInfo. As noted above, Members use FIX, FIX DROP, and CTI to obtain order information currently available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

The Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 6.C(ii)(3) in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any Member. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. As discussed above, the Exchange does not assess a fee for TradeInfo today. Additionally, it is equitable and not unfairly discriminatory to remove the references to TradeInfo pricing from the Pricing Schedule

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[136]   As noted above, the Exchange provided notice of the decommission to all Members through an Options Trader Alert. See Options Trader Alert #2022-29.

because no Member would be able to utilize this functionality once it is removed from the System.

Optional Risk Protections

The Exchange believes that introducing the optional quantity and notional value risk protections as described above will protect investors and the public interest, and maintain fair and orderly markets, by providing market participants with another tool to manage their order risk. As noted above, BX offers functionally identical optional risk protections in BX Options 3, Section 28.[137] In addition, providing Members with more tools for managing risk will facilitate transactions in securities because Members will have more confidence that risk protections are in place. As a result, the new functionality has the potential to promote just and equitable principles of trade.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform.

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[137]   As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

As it relates to the elimination of fees for flash functionality and TradeInfo from Options 7, the Exchange believes that its proposal does not impose an undue burden on competition because the flash functionality and TradeInfo would no longer be available to any Members.

The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act. As it relates to bulk messaging for quotes as proposed in Options 3, Section 4(b)(3), the Exchange notes that Cboe similarly allows for bulk messaging in Cboe Rule 1.1, except Cboe also allows bulk messaging for orders, unlike the Exchange. As it relates to the proposal in Options 3, Section 7(g)(4) to codify the refresh features into the Exchange's Reserve Order rule, the Exchange notes that Cboe's Reserve Order functionality has similar refresh features in Cboe Rule 5.6(c). As it relates to the proposal in Options 3, Section 23(a) to add Attributable Order content in the Order Feed, Cboe currently has similar data elements available on its Multicast PITCH feed.[138]

The proposed rule changes are based on the following rules of the Nasdaq affiliated exchanges:

- The Market Order proposal in Options 3, Section 7(a) will be materially identical to BX's Market Orders in BX Options 3, Section 7(a)(5).

- The ISO proposal in Options 3, Section 7(b)(5) will be substantially similar to BX's ISO in BX Option 3, Section 7(a)(6). Unlike BX, the Exchange's ISO

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[138]   See supra note 98.

proposal will not refer to how ISOs may be entered on the Exchange as the
Exchange intends address that in a separate rule filing.

- The Exchange's AON proposal will be substantially similar to BX's Contingency
  Order rule in BX Options 3, Section 7(a)(4)(A) (except BX's rule also describes
  Minimum Quantity Orders, which the Exchange does not offer today) and BX's
  AON rule in BX Options 3, Section 7(a)(7).

- The Stop Order proposal in Options 3, Section 7(d) will be substantially similar to
  Phlx Options 3, Section 7(b)(4), except Phlx does not currently explicitly state
  that Phlx Stop Orders may only be entered through FIX or Precise because Phlx
  only offers one order entry protocol (FIX), unlike the Exchange, which offers
  three (FIX, Precise, and OTTO).

- The Stop Limit Order proposal in Options 3, Section 7(e) will be substantially
  similar to Phlx Options 3, Section 7(b)(4)(A), except Phlx does not currently
  explicitly state that Phlx Stop Limit Orders may only be entered through FIX or
  Precise for the same reasons stated for Stop Orders above.

- The Preferenced Order proposal in Options 3, Section 7(l) will be materially
  identical to Phlx's Directed Order rule in Phlx Options 3, Section 7(b)(11).

- The ALO proposal in Options 3, Section 7(n) will be materially identical to BX
  ALOs in BX Options 3, Section 7(a)(12).

- The Opening Sweep proposal in Options 3, Section 7(t) will be materially
  identical to the Phlx Opening Sweep in Phlx Options 3, Section 7(b)(6).

- The Day order proposal in Supplementary Material .02(a) to Options 3, Section 7
  will be substantially similar to BX Options 3, Section 7(b)(3), except BX's rule

does not refer to OTTO or Precise because BX does not offer OTTO or Precise functionality today.

- The IOC proposal in Supplementary Material .02(d) to Options 3, Section 7 will be substantially similar to BX's IOC in BX Options 3, Section 7(b)(2), except the BX rule does not refer to OTTO or Precise as BX does not offer these features today.

- The OPG proposal in Supplementary Material .02(e) to Options 3, Section 7 will be materially identical to BX's OPG in BX Options 3, Section 7(b)(1).

- The Opening Process proposal in Options 3, Section 8 to allow all market participant interest to route will be identical to BX's Opening Process in BX Options 3, Section 8.

- The following proposed changes to PIM are based on BX PRISM: (1) proposed Options 3, Section 13(b)(5) will be materially identical to BX Options 3, Section 13(i)(E); (2) proposed Options 3, Section 13(c)(3) will be materially identical to BX Options 3, Section 13(ii)(A)(8); (3) proposed Options 3, Section 13(d)(5) will be functionally similar to BX Options 3, Section 13(ii)(C); (4) proposed Options 3, Section 13(d)(6) will be functionally similar to BX Options 3, Section 13(ii)(I); and (5) proposed Supplementary Material .02 to Options 3, Section 13 will be materially identical to BX Options 3, Section 13(iii).

- The proposed OPP risk protection in Options 3, Section 15(a)(1)(A) will be functionally similar to BX OPP in BX Options 3, Section 15(a)(1).[139]

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[139]   As noted above, BX will file a separate rule change to conform its OPP rule to the Exchange's proposed rule.

- The proposed Post-Only Quote Configuration in Options 3, Section 15(a)(3)(C) will be functionally identical to the BX Post-Only Quote Configuration in BX Options 3, Section 15(c)(3).

- The Depth of Market Feed proposal in Option 3, Section 23(a)(1) will be substantially similar to the BX Depth of Market Feed in BX Options 3, Section 23(a)(1), except the Exchange will not offer auction and exposure notifications on its Depth of Market Feed like BX does today.

- The Order Feed proposal in Options 3, Section 23(a)(2) will contain data elements that are identical to those on BX's Depth of Market Feed in BX Options 3, Section 23(a)(1), specifically around what would be provided in the opening/reopening order imbalance information (i.e., the size of matched contracts and size of the imbalance), and auction and exposure notifications.

- The Top Feed proposal in Options 3, Section 23(a)(3) will be substantially similar to the BX Top Feed in BX Options 3, Section 23(a)(2), except the Exchange will continue to provide aggregated size information unlike BX.

- The proposed optional quantity and notional value risk protections in Options 3, Section 28 will be functionally identical to the protections in BX Options 3, Section 28.[140]

The Exchange reiterates that the proposed rule change is being proposed in the context of the technology migration to enhanced Nasdaq functionality. The Exchange

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[140]   As noted above, while the proposed rule text in Options 3, Section 28 adds more granularity, including around how orders are rejected when the value thresholds for the options risk protections are exceeded, the Exchange understands that the BX optional risk protections operate in the same manner. In addition, BX's rule does not include Precise as this order entry port is not available on BX today.

further believes the proposed rule change will benefit Members by providing a more

consistent technology offering, as well as consistent rules, for market participants on the

Nasdaq affiliated options exchanges. In addition, the proposed rule change relates to

adding clarity and consistency in the Exchange's Rulebook, and are designed to reduce

any potential investor confusion as to the features and applicability of certain

functionality presently available on the Exchange.

The Exchange does not believe that the proposed rule change will impose any

burden on intra-market competition that is not necessary or appropriate in furtherance of

the purposes of the Act, as the majority of the proposed changes will apply to all

Members. As it relates to the proposed rule change relating to bulk message

functionality, 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 also does not believe

that the proposed decommission of the GUI Kill Switch for order cancellation will

impose any burden on intra-market competition that is not necessary or appropriate in

furtherance of the purposes of the Act. As discussed above, the Exchange previously

amended its rules to decommission the quote removal Kill Switch that was available to

Market Makers through the GUI.[141] The Exchange therefore believes that eliminating the

GUI Kill Switch for order cancellation will streamline the Exchange's risk protection

offerings in a manner that reflects Member use. The Exchange will continue to offer

substantially similar Kill Switch functionality through FIX, Precise and OTTO.

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

No written comments were either solicited or received.

III.   <u>Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action</u>

Because the foregoing proposed rule change does not: (i) significantly affect the

protection of investors or the public interest; (ii) impose any significant burden on

competition; and (iii) become operative for 30 days from the date on which it was filed,

or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act[142] and subparagraph (f)(6) of Rule 19b-4

thereunder.[143]

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

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[141]   <u>See</u> <u>supra</u> note 94.

[142]   15 U.S.C. 78s(b)(3)(A)(iii).

[143]   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.

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

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

Commission takes such action, the Commission shall institute proceedings to determine

whether the proposed rule should be approved or disapproved.

IV.   Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments

concerning the foregoing, including whether the proposed rule change is consistent with

the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form

  (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-

  GEMX-2023-02 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-GEMX-2023-02. 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-GEMX-2023-02 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.[144]

J. Matthew DeLesDernier
Assistant Secretary

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[144]   17 CFR 200.30-3(a)(12).

<div align="right">**EXHIBIT 5**</div>

Deleted text is [bracketed]. New text is <u>underlined</u>.

Nasdaq GEMX, LLC Rules

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Options 3 Options Trading Rules

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Section 4. Entry and Display of Quotes

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

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   (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. <u>Quotes may be submitted as a bulk message.</u>

   <u>(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.</u>

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Section 5. Entry and Display of Orders

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(b) **NBBO Price Protection**. Orders, other than Intermarket Sweep Orders (as defined in Options 5, Section 1(h)), will not be automatically executed by the System at prices inferior to the NBBO (as defined in Options 5, Section 1(j)).

   (1) [Orders that are not automatically executed will be handled as provided in Supplementary Material .02 to Options 5, Section 2; provided that Members may specify that a Non-Customer order should instead be accepted and immediately cancelled automatically by the System at the time of receipt.

   (2)] There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Options 5, Section 1(k)).

* * * * *

(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. [Orders that are not automatically executed will be handled as provided in Supplementary Material .02 to Options 5, Section 2; provided that Members may specify that a Non-Customer order should instead be cancelled automatically by the System at the time of receipt.]

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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) **Market Orders**. A [m]Market [o]Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. <u>Members can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Member, once an options series has opened for trading. Market Orders on the order book would be immediately cancelled if an options series is halted, provided the Member designated the cancellation of Market Orders.</u>

(b) **Limit Orders**. A limit order is an order to buy or sell a stated number of options contracts at a specified price or better.

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[(3) *Immediate-or-Cancel Orders*. An immediate-or-cancel order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. An immediate-or-cancel order entered by a Market Maker through the Specialized Quote Feed protocol will not be subject to the Limit Order Price Protection and Size Limitation Protection as defined in GEMX Options 3, Section 15(b)(2) and (3).

(4) Reserved.]

([5]<u>3</u>) **Intermarket Sweep Orders**. An Intermarket Sweep Order ("<u>ISO</u>") is a limit order that meets the requirements of Options 5, Section 1(h). <u>Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a TIF designation of IOC. ISOs may not be submitted during the Opening Process.</u>

(c) **All-Or-None Orders**. An All-Or-None ("<u>AON</u>") [o]Order is a limit or market order that is to be executed in its entirety or not at all. An [All-Or-None]<u>AON</u> Order may only

be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

(d) **Stop Orders**. A stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders may only be entered through FIX or Precise.

(e) **Stop Limit Orders**. A stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop limit order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. Stop Limit Orders may only be entered through FIX or Precise.

(f) [Reserved.]**Cancel and Replace Orders**. Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(a)(1)(A) and Options 3, Section 15(a)(1)(B)) the existing order shall be cancelled and not replaced.

(g) **Reserve Orders**. A Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion.

  (1)[.] Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book.

  (2)[.] The displayed portion of a Reserve Order shall be ranked at the specified limit price and the time of order entry.

  (3)[.] The displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(c)(1)(A) for Priority Customer Orders, and Options 3, Section 10(c)(1)(E) for non-Priority Customer Orders.[.]

(4) Reserve Orders may be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the Member.

(5)[4.] When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Options 3, Section 10(c)(1)(A) for Priority Customer Orders, and Options 3, Section 10(c)(1)(E) for non-Priority Customer Orders.

(6)[5.] The initial non-displayed portion of a Reserve Order rests on the order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in paragraph [4](5) above. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order will trade in accordance with Options 3, Section 10(c)(1)(A) for Priority Customer Orders, and Options 3, Section 10(c)(1)(E) for non-Priority Customer Orders.

(h) **Attributable Order**. An Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. The Exchange will issue an Options Regulatory Alert specifying the Systems [and the class of securities] for which the Attributable Order type shall be available.

(i) **Customer Cross Orders**. A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Options 3, Section 12(a).

(j) **Qualified Contingent Cross Order**. A Qualified Contingent Cross ("QCC") Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order or orders totaling an equal number of contracts. QCC Orders will trade in accordance with Options 3, Section 12(c). QCC Orders may only be entered through FIX or Precise.

* * * * *

(l) **Preferred Order**. A Preferred Order is as described in Options 2, Section 10. [Day Order. An order to buy or sell which, if not executed, expires at the end of the day

on which it was entered. All orders by their terms are Day Orders unless otherwise specified.]

(m) Reserved[*Do-Not-Route Orders*. A do-not-route order is a market or limit order that is to be executed in whole or in part on the Exchange only. Due to prices available on another options exchange (as provided in Options 5 (Order Protection; Locked and Crossed Markets)), any balance of a do-not-route order that cannot be executed upon entry, or placed on the Exchange's limit order book, will be automatically cancelled].

(n) **Add Liquidity Order**. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). [An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price.] An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

(o) Reserved[*Opening Only Order*. An Opening Only order is a limit order that can be entered for the opening rotation only. Any portion of the order that is not executed during the opening rotation is cancelled].

(p) Reserved[*Good-Till-Date Order*. A Good-Till-Date Order is a limit order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series].

(q) Reserved.

(r) Reserved[Good-Till-Canceled Order (GTC Order). An order to buy or sell that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC Orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract].

(s) Reserved[Sweep Order. A Sweep Order is a limit order that is to be executed in whole or in part on the Exchange and the portion not so executed shall be routed pursuant to Supplementary Material .05 to Options 5, Section 2 to Eligible Exchange(s) for

immediate execution as soon as the order is received by the Eligible Exchange(s). Any portion not immediately executed by the Eligible Exchange(s) shall be canceled. If a Sweep Order is not marketable when it is submitted to the Exchange, it shall be canceled].

(t) **Opening Sweep**. An Opening Sweep [is a Market Maker order submitted for execution against eligible interest in the System during the Opening Process pursuant to Options 3, Section 8(b)(1).]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. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b)(1) and will be cancelled upon the open if not executed.

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Supplementary Material to Options 3, Section 7

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

.02 **Time in Force**. 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:

(a) **Day**. An order to buy or sell entered with a TIF of "DAY," which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day orders unless otherwise specified. Day orders may be entered through FIX, OTTO, or Precise.

(b) **Good-Till-Canceled**. An order to buy or sell entered with a TIF of "GTC" that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTC orders may be entered through FIX or Precise.

(c) **Good-Till-Date**. An order to buy or sell entered with a TIF of "GTD," which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX or Precise.

(d) **Immediate-or-Cancel**. An order entered with a TIF of "IOC" that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.

>   (1) Orders entered with a TIF of IOC are not eligible for routing.

>   (2) IOC orders may be entered through FIX, OTTO, Precise, or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively.

>   (3) Block Orders, Facilitation Orders, SOM Orders, PIM Orders, QCC Orders, and Customer Cross Orders 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) **Opening Only**. An Opening Only ("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. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.

.03 The Exchange offers Members the following protocols for entering orders and quotes respectively:

(a) "**Financial Information eXchange**" or "**FIX**" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders to the Exchange. Features include the following: (1) execution messages; (2) order messages; (3) risk protection triggers and cancel notifications; and (4) post trade allocation messages.

(b) "**Ouch to Trade Options**" or "**OTTO**" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction 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) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages.

(c) **"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. <u>Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, Market Order Spread Protection, and Size Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively.</u>

(d) **"Nasdaq Precise"** or **"Precise"** is a front-end interface that allows Electronic Access Members and their Sponsored Customers to send orders to the Exchange and perform other related functions. Features include the following: (1) order and execution management: enter, modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders, inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g., NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g., order history and done away trade reports).

<u>.04</u> **Routing Strategies**<u>. Orders may be entered on the Exchange with a routing strategy of FIND or SRCH, or, in the alternative, an order may be marked as Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX or Precise only.</u>

Section 8. Options Opening Process

(a) Definitions. The Exchange conducts an electronic opening for all option series traded on the Exchange using its System.

(1) The "ABBO" is the Away Best Bid or Offer.

(2) The "market for the underlying security" is either the primary listing market [market] or an alternative market designated by the primary market. In the event that the primary market is unable to open and an alternative market is not designated by the primary market and/or the alternative market designated by the primary market does not open, the Exchange may utilize a non-primary market to open all underlying securities from the primary market. The Exchange will select the non-primary market with the most liquidity in the aggregate for all underlying securities that trade on the primary market for the previous two calendar months, excluding the primary and alternative markets.

* * * * *

(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders, including Opening Only Orders, but excluding orders with a Time in Force of "Immediate-or-Cancel" and Add Liquidity Orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. The displayed and non-displayed portions of Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process. [Only Public Customer interest is routable during the Opening Process.]

* * * * *

(g) **Potential Opening Price.** The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met. To calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders) for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (h)(3)(i) and (i)(5) - (7) below contain additional provisions related to 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 <u>up</u> 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].

* * * * *

(i) 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 option series will not open if the ABBO becomes crossed pursuant to (c)(5)) and there are Valid Width Quotes on the Exchange that cross each other or [are marketable against]<u>cross</u> the ABBO:

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

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

* * * * *

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the System to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (g) above. The System will route routable [Public Customer] interest pursuant to Options 3, Section 10(c)[(1)(A)].

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

* * * * *

(6) The System will execute orders at the Opening Price that have contingencies (such as, without limitation, Reserve Orders) and non-routable orders, such as a "Do-Not-Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency [Public Customer] orders, except that [Public Customer] Reserve Orders may route up to their full volume.

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Section 9. Trading Halts

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(d) Capitalized terms used in this paragraph (d) shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

* * * * *

(2) Provided the Exchange has opened an affected option for trading, the Exchange shall reject Market Orders, as defined in Options 3, Section 7(a), and shall notify Members of the reason for such rejection. [Market Orders exposed at the NBBO pursuant to Supplementary Material .02 to Options 5, Section 2, pending in the System, will continue to be processed. If at the end of the exposure period the affected underlying is in a Limit or Straddle State, the Market Order will be cancelled. If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Order will be processed with normal handling.]

* * * * *

Section 10. Priority of Quotes and Orders

(a) *Definitions and Applicability*.

([i]1) As provided in Options 1, Section 1(a)(6) and (a)(26), a "bid" is a quotation or Limit Order to buy options contracts and an "offer" is a quotation or Limit Order to sell options contracts. "Quotations," which are defined in Options 1, Section 1(a)(45), may only be entered on the Exchange by Market Makers in the options classes to which they are appointed under Options 2, Section 3. Limit Orders may be entered by Market Makers in certain circumstances as provided in the Rules and Electronic Access Members (either as agent or as principal). "Priority Customer Orders" and "Professional Orders" are defined in Options 1, Section 1(a)(37) and (38).

([ii]2) **Applicability**. This rule does not apply to the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), the Price Improvement Mechanism described within Options 3, Section 13, orders described within Options 3, Section 12[or an exposure period as provided in Options 5, Section 2 at Supplementary Material .02], unless Options 3, Section 10 is specifically referenced within GEMX Rules applicable to the aforementioned functionality

* * * * *

Section 11. Auction Mechanisms

For purposes of this Rule, a "broadcast message" means an electronic message that is sent by the Exchange to all Members, and a "Response" means an electronic message that is sent by Members in response to a broadcast message. Responses represent non-firm interest that can be canceled or modified at any time prior to execution. Responses are not displayed to any market participants. Also for purposes of this Rule, the time given to Members 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.

* * * * *

Supplementary Material to Options 3, Section 11

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.02 [Responses represent non-firm interest that can be canceled at any time prior to execution. Responses are not displayed to any market participants]Reserved.

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Section 12. Crossing Orders

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(c) Qualified Contingent Cross Orders. Qualified Contingent Cross Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the NBBO.

* * * * *

   (2) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under [in] Options 3, Section 3.

Section 13. Price Improvement Mechanism for Crossing Transactions

* * * * *

(b) **Crossing Transaction Entry**. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

* * * * *

   (4) The Crossing Transaction may not be canceled or modified, but the price of the Counter-Side Order may be improved during the exposure period.

   (5) Crossing Transactions submitted at or before the opening of trading are not eligible to initiate an auction and will be rejected.

(c) **Exposure Period**. Upon entry of a Crossing Transaction into the Price Improvement Mechanism, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent to all Members. This broadcast message will not be included in the Exchange's disseminated best bid or offer and will not be disseminated through OPRA.

* * * * *

   (3) During the exposure period, Improvement Orders may [not] be canceled or modified[, but may be modified to (i) increase the size at the same price, or (ii) improve the price of the Improvement Order for any size up to the size of the Agency Order].

* * * * *

(d) **Execution**. At the end of the exposure period the Agency Order will be executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, and the Counter-Side Order. The Agency Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

* * * * *

(5) If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated with[out] execution solely with the Counter-Side Order.

(6) If the PIM execution price would be the same or better than an order on the limit order book on the same side of the market as the Agency Order, the Agency Order may only be executed at a price that is at least $0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the initiating Crossing Transaction price, then the entire Agency Order will trade at the initiating Crossing Transaction price with all better priced counter-side interest being considered for execution at the initiating Crossing Transaction price.

Supplementary Material to Options 3, Section 13

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.02 The Price Improvement Mechanism may only be used to execute bona fide Crossing Transactions. It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 if an Electronic Access Member submits a PIM Order (initiating an auction) and also submits its own Improvement Order in the same auction.

* * * * *

Section 15. Simple Order Risk Protections

(a) The following risk protections are automatically enforced by the System. In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.

(1) The following are order risk protections on GEMX:

(A) **Order Price Protection ("OPP").** OPP is a feature of the System that prevents limit orders at prices outside of pre-set standard limits from being accepted by the System.

(i) OPP is operational each trading day after the opening until the close of trading, except during trading halts. OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

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

(a) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(1) 50% less (greater) than such contra-side Reference Best Bid (Offer); or

(2) a configurable dollar amount not to exceed $1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

(b) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(1) 100% less (greater) than such contra-side Reference Best Bid (Offer); or

(2) a configurable dollar amount not to exceed $1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

[**Limit Order Price Protection**. There is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%. Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.]

* * * * *

(3) The following are Market Maker risk protections on GEMX:

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

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Section 17. Kill Switch

(a) Kill Switch enables Members to initiate a message to the System to promptly cancel and restrict their order activity on Nasdaq GEMX, or across both Nasdaq GEMX and Nasdaq ISE, as described in section[s] (a)(1) [and (a)(2)] below. Members may submit a Kill Switch request to the System for certain identifier(s) ("Identifier") on either a user or group level. Permissible groups must reside within a single Member firm. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange's System.

  (1) A Member may submit a request to the System through FIX, OTTO, or Precise to cancel all existing orders and restrict entry of additional orders for the requested Identifier(s) on a user level on Nasdaq GEMX, or across both Nasdaq GEMX and Nasdaq ISE, in either case as set by the Member.

  [(2) Alternatively, a Member may submit a request to the System through a graphical user interface to cancel all existing, and restrict entry of additional, orders for the requested Identifier(s) on either a user or group level on Nasdaq GEMX, or across both Nasdaq GEMX and Nasdaq ISE, in either case as set by the Member.]

  ([3]2) Once a Member initiates the Kill Switch pursuant to section (a)(1) [or (a)(2)] above, the Member will be unable to enter additional orders for the affected Identifier(s) until the Member has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the Member. The applicable Clearing Member also will be notified of such re-entry into the System, provided the Clearing Member has requested to receive such notification.

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Section 23. Data Feeds and Trade Information

(a) The following data feeds contain [ISE]GEMX trading information offered by GEMX:

(1) Nasdaq GEMX Depth of Market Data Feed ("Depth of Market Feed") is a data feed that provides full order and quote depth information for individual orders and quotes on the Exchange book and last sale information for trades executed on the Exchange[provides aggregate quotes and orders at the top five price levels on GEMX, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for GEMX traded options]. The data provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on [ISE]the Exchange and identifies if the series is available for closing transactions only. [In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This information is provided for each of the top five price levels on the Depth Feed.] The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance).

(2) Nasdaq GEMX Order Feed ("Order Feed") provides information on new orders resting on the book (e.g. price, quantity, [and] market participant capacity and Attributable Order tags when provided by a Member). [In addition, the feed also announces all auctions.] The data provided for each option series includes the symbols (series and underlying security), displayed order types, order attributes (e.g., OCC account number, give-up information, CMTA information), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance), auction and exposure notifications.

(3) Nasdaq GEMX Top of Market[Quote] Feed ("Top [Quote] Feed") calculates and disseminates GEMX's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information [along with opening price, daily trading volume, high and low prices for the day. The data provided] and for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

(4) Nasdaq GEMX Trades Feed ("Trades Feed") displays last trade information [along with opening price, daily trading volume, high and low prices for the day]. The data

provided for each option series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on GEMX and identifies if the series is available for closing transactions only.

(b) The following order and execution information is available to Members:

* * * * *

(2) Reserved[TradeInfo, a user interface, permits a Member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo].

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Section 28. [Reserved]Optional Risk Protections

(a) The following are optional order risk protections:

(1) Notional dollar value per order (quantity x limit price x number of underlying shares);

(2) Daily aggregate notional dollar value;

(3) Quantity per order; and

(4) Daily aggregate quantity

(b) Members may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Members may modify their settings through Market Operations.

(c) The System will reject all incoming aggregated Member orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the Member is exceeded.

(d) The System will reject all incoming Member orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the Member is exceeded by the incoming order.

(e) If a Member sets a notional dollar value, a Market Order would not be accepted from that Member.

(f) The risk protections are only available for orders entered through FIX or Precise. Additionally, all settings are firm-level.

* * * * *

Options 7 Pricing Schedule

Section 1. General Provisions

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[A **"Flash Order"** is an order that is exposed at the National Best Bid or Offer by the Exchange to all Members for execution, as provided under Supplementary Material .02 to Nasdaq GEMX Options 5, Section 2. For all Flash Orders, the Exchange will charge the applicable taker fee and for responses that trade against a Flash Order, the Exchange will provide the applicable maker rebate..]

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Section 6. Connectivity Fees

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C. Ports and Other Services

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(ii) The following order and execution information is available to Members.

(1) CTI Port Fee[2]	$650 per port, per month, per account number
(2) FIX DROP Port Fee[2]	$650 per port, per month, per account number
[**(3) TradeInfo GEMX Interface**]	[$0 per user, per month]

(iii) The following data ports fees apply in connection with data subscriptions pursuant to GEMX Rules at Section 7. These ports are available to non-GEMX Members and GEMX Members.

(1) **Nasdaq GEMX Depth of Market Data Port**	$0 per port, per month
(2) **Nasdaq GEMX Order Feed Port**	$0 per port, per month
(3) **Nasdaq GEMX Top [Quote] Feed Port**	$0 per port, per month
(4) **Nasdaq GEMX**	$0 per port, per month

Trades Feed Port

* * * * *

Section 7. Market Data

* * * * *

B. Nasdaq GEMX Top [Quote] Feed

Professional (internal use only).

> $1,000 per month per distributor.* $5 per month per controlled device.** Each distributor's combined maximum fee for internal redistribution is capped at $1,250 per month.

Professional (external redistribution).

> $1,000 per month per distributor. $5 per month per controlled device. Each distributor's combined maximum fee for external redistribution is capped at $1,500 per month.

Professional (internal and external redistribution).

> $1,000 per month per distributor. $5 per month per controlled device. Each distributor's combined maximum fee for both internal and external redistribution is capped at $1,500 per month.

Non-Professional (external redistribution through a controlled device).

> $1,000 per month per distributor. There are no monthly controlled device fees.

* A distributor is any firm that receives the Nasdaq GEMX Top [Quote] Feed directly from Nasdaq GEMX or indirectly through a redistributor and then distributes it either internally or externally. A redistributor includes market data vendors and connectivity providers such as extranets and private network providers.

** A controlled device is any device that a distributor of the Nasdaq GEMX Top [Quote] Feed permits to access the information in the Nasdaq GEMX Top [Quote] Feed.

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