Required fields are shown with yellow backgrounds and asterisks.

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

File No. * SR 2025 - * 06

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 Various Options Rules

Contact Information

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

First Name * Angela

Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * angela.dunn@nasdaq.com

Telephone * (215) 496-5692

Fax

Signature

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

Date 02/06/2025

(Title *)

By   John A. 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.

John A. Zecca   Date: 2025.02.06
10:18:53 -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-2025-06 19b4.docx

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

Exhibit 1 - Notice of Proposed Rule Change *		
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SR-GEMX-2025-06 Exhibit 1.docx

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

Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies *		
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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2- Notices, Written Comments, Transcripts, Other Communications		
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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

☐   Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire		
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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

☐   Exhibit Sent As Paper Document

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

Exhibit 5 - Proposed Rule Text		
Add	Remove	View

SR-GEMX-2025-06 Exhibit 5.docx

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

proposed rule to amend various options rules to: (1) further define a Stop Order and Stop

Limit Order at Options 3, Section 7(d) and (e); (2) amend the treatment of responses in

the Facilitation Mechanism in Options 3, Section 11(b), Solicited Order Mechanism in

Options 3, Section 11(d) and Price Improvement Mechanism ("PIM") in Options 3,

Section 13 and clarify how multiple responses are treated; (3) describe the application of

the Order Price Protection to Stop-Limit Orders at Options 3, Section 15(a)(1)(A), amend

the parameters for the Market Wide Risk Protection at Options 3, Section 15(a)(1)(C),

and amend the Acceptable Trade Range at Options 3, Section 15(a)(2)(A); and (4) make

other various non-substantive and technical amendments.

        A notice of the proposed rule change for publication in the Federal Register is

attached hereto 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

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

[2]   17 CFR 240.19b-4.

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:

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

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

a. <u>Purpose</u>

The Exchange proposes to amend various Options 3, Options Trading Rules:

Section 7, Types of Orders and Order and Quote Protocols; Section 11, Auction

Mechanisms; Section 13, Price Improvement Mechanism for Crossing Transactions;

Section 15, Simple Order Risk Protections; Section 22, Limitations on Order Entry; and

Section 23, Data Feeds and Trade Information. The Exchange also proposes to reserve

Options 3A. Each change will be described below.

Options 3, Section 7

The Exchange proposes to add an additional sentence to Options 3, Section 7(d)

related to a Stop Order. Today, Options 3, Section 7(d) provides,

> 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.

Today, a Stop Order is not elected by a trade that is reported late or out of sequence. The

purpose of this provision is to ensure systematically that a Stop Order would be elected

on the Exchange by the execution price at the actual time of the execution, instead of at

the time of a late or out-of-sequence report. Absent this provision, it would be possible

for a Stop Order to be elected by a trade that is reported late or out-of-sequence, which

could result in such Stop Order being converted into a Market Order or a Limit Order

and, in the case of a Stop Order executed at a significantly different price than the

election price of the Stop Order.[3] For these reasons, a similar sentence would also be

added to Options 3, Section 7(e) related to a Stop Limit Order. The Exchange proposes

to make clear what would elect a Stop Order or a Stop Limit Order in its rules so that

Members may anticipate that a late, out-of-sequence report, would not cause a Stop Order

or Stop Limit Order to be elected. Today, Nasdaq Phlx LLC ("Phlx") notes this behavior

with respect to its Stop Order.[4]

The Exchange proposes to amend the description of a PIM Order at Options 3,

Section 7(y) to remove the "A" before "PIM Order." The Exchange also proposes to

reserve "z" which on Nasdaq ISE, LLC ("ISE") has a description of an order type which

order type is not currently on GEMX.[5]

Auction Responses

The Exchange proposes to amend the Facilitation Mechanism at Options 3,

Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the

Price Improvement Mechanism ("PIM") in Options 3, Section 13(c)(2) to amend the

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[3]   For example, if a Stop Order to sell at $3.00 is elected by a trade reported late or out-of-sequence
        with an execution price of $3.00 when the actual bid price at the time of the report is $1.00, the
        Stop Order would be converted into a market order and executed at $1.00.

[4]   See Phlx Options 3, Section 7(b)(4). Phlx's current Stop Order applies to Stop limit orders as well
        as noted in Options 3, Section 7(b)(4)(A). Unlike Phlx, GEMX does not offer complex orders.

[5]   See Securities Exchange Act Release No. 101720 (November 22, 2024), (SR-ISE-2024-12) (not
        yet noticed). This rule change is approved, but not yet implemented. ISE filed to establish a
        FLEX Order type.

current System behavior with respect to the handling of Response and Improvement

Orders. Today, a Response or Improvement Order must be equal to or better than the

displayed NBBO on both sides of the market at the time of receipt of the Response or

Improvement Order in both the Facilitation Mechanism and the Solicited Order

Mechanism, as well as in a PIM. While the current rules do not make this clear, this

represents the Exchange's current practice.

Specifically, the Exchange proposes to amend the System behavior to permit a

response to these auctions to be entered at a price that is equal to or better than the better

of the internal BBO or the NBBO on the same side of the market at the start of the

auction and on the opposite side of the market at the time the Response is received.

Utilizing the price of the market at the start of the auction, for the same side check, would

prevent an order or quote from potentially manipulating the final auction price by

changing the internal BBO/NBBO while not fully satisfying the Agency Order, thus

preventing Responses or Improvement Orders from being entered at a price that improves

the stop price of the auction, but remains inferior to the price of such initial order or

quote. In contrast, for the opposite side check, it is not necessary to use the price of the

market at the time of the start of the auction because potential manipulation cannot occur

on the opposite side check as the NBBO cannot be updated on the same side by

submitting interest into the auction. The proposed amendment is intended to prevent

potential auction manipulation which can occur when an order/quote is entered at a price

that improves the price of the order to be facilitated, Agency Order or Crossing

Transaction.

The Exchange proposes to amend the current rule because, in certain cases, the current rule prevents other responses to that auction to be entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction, but is inferior to such other quote/order responses which improved upon the internal BBO or NBBO. By way of example, during an auction, once an order or quote is received on the opposite side of the PIM, Facilitation, or Solicitation Agency Order which is marketable with the Agency Order, it changes the internal BBO and potentially the NBBO. If such initial order or quote does not comprise enough size to fully satisfy the PIM, Facilitation, or Solicitation Agency Order, since it has changed the internal BBO/NBBO, it now prevents Responses or Improvement Orders which improve the stop price of the auction from being entered at a price that is inferior to the initial order or quote, despite such initial order or quote's inability to satisfy the full volume of the Agency Order at an improved price. By utilizing the better of the internal BBO or the NBBO at the start of the relevant auction, the Exchange believes that better priced responses would be permitted to trade with the order to be facilitated, Agency Order or Crossing Transaction. Today, those better priced responses would be rejected. The proposed amendments would allow orders to be facilitated, and the Agency Order or Crossing Transaction to potentially trade at improved prices.

Below are examples of this functionality change.

Example 1

Internal BBO – $1.15 x $1.30

NBBO – $1.10 x $1.35

PIM Order to sell is entered with Customer on Agency side selling 100 contracts with a stop price of $1.18.

Order 1 is entered to Buy 1 @ $1.25 – accepted based on market at start of auction $1.15 x $1.30.

Auction response 1 is entered to Buy 100 @ $1.20 – With entry check modification, accepted based on market at start of auction $1.15 x $1.30.

Under current system entry checks, PIM Auction response 1 would be rejected because the system would look at the market of $1.25 x $1.30, and the PIM Auction would conclude after the timer has run the full 100 milliseconds and partially trade with Order 1 at $1.25 and with a final auction price of $1.18. The remainder of the Agency Order would trade with the contra-side order at $1.18.

Under new system entry checks, the PIM Auction would conclude and partially trade with Order 1 at $1.25 and then trade the remainder of the Agency Order at a price of $1.20 based off of the acceptance of Auction Response 1.

Example 2

Internal BBO – $23.90 x $28.50

NBBO – $23.90 x $28.50 (Singly listed on GEMX)

PIM Order to sell is entered with Customer on Agency selling 100 contracts with an Agency Order price of $26.20.

Quote is entered to buy 1 contract @ $27.40 (updating NBBO to $27.40 x $28.50) Auction Response 1 is entered to Buy 100 @ $26.72 – With entry check modification, accepted based on market at start of auction $23.90 x $28.50.

Under current system entry checks, Auction response 1 would be rejected because the system would look at the market of $27.40 x $28.50, and the PIM Auction would conclude after the timer has run the full 100 milliseconds and partially trade with quote @ $27.40 and with contra at a final auction price of $26.20.

Under new system entry checks, the PIM Auction would conclude and partially trade with quote @ $27.40 and with Auction Response and contra (assuming the contra elected to automatically match the response) at a final auction price of $26.72 based off of the acceptance of Auction Response 1.

The Exchange is not amending Options 3, Section 13(b)(3) because the same side of the market entry check currently conforms to Phlx Options 3, Section 13(a)(3) which requires that on the same side of the market as the PIXL Order, the better of: (i) the Reference BBO price improved by at least $0.01, (ii) the PIXL Order's limit price (if the

order is a Limit Order), or (iii) equal to or better than the NBBO. In harmonizing its auction rules, the Exchange is conforming to Phlx PIXL entry checks. Currently, on Phlx, if the PIXL Order is for a Non-Public Customer, the PIXL Order must also be better than any quote on the same side of the market as the PIXL Order. Priority Customers may start a PIM Auction equal to a quote as these market participants would have priority over all other market participants if a Priority were to submit an order to the order book. In contrast, a broker dealer or any other person or entity that is not a Priority would not have this priority with respect to a Market Maker quote. The Exchange's current rule text at Options 3, Section 13(b)(3) is the same as Phlx Options 3, Section 13(a)(3).

Options 3, Section 13

The Exchange proposes to amend Options 3, Section 13(b)(1) and (2) to align its entry check with Phlx Options 3, Section 13, Price Improvement XL ("PIXL") entry checks.[6] Specifically, the Exchange proposes to amend its entry check where the PIM Agency Order is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") or the difference between the internal best bid and the internal best offer is $0.01; currently, the Crossing Transaction

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[6]   Today, Phlx Options 3, Section 13(b)(3) PIXL entry checks for the account of a broker dealer or any other person or entity that is not a Public Customer for orders of 50 contracts or more are the same checks that are currently in place at Phlx Options 3, Section 13(a)(3) for the account of a broker dealer or any other person or entity that is not a Public Customer for orders of 50 contracts or more. Phlx's current rule text defines the "internal PBBO" as the "Reference BBO" at Options 3, Section 13(a)(3)(A). Phlx's same side entry check for the account of a broker dealer or any other person or entity that is not a Public Customer for orders of 50 contracts or more, requires the Reference PBBO price to be improved by at least $0.01 which is analogous to requiring a PIXL Order's quote to be better than the same side of the market as the PIXL Order, similar to ISE's entry check for this category of PIM Order. Of note, Phlx will separately amend its rule text at Options 3, Section 13(a)(3) to align that rule text with ISE, GEMX and MRX Options 3, Section 13(b)(3).

must be entered at a price that is: $0.01 better than the NBBO and the internal BBO on the opposite side of the market from the Agency Order and on the same side of the market as the Agency Order, (i) equal to or better than the NBBO and (ii) better than any Limit Order or quote on the GEMX order book. At this time, the Exchange proposes to instead provide that where a PIM Agency Order is for less than 50 option contracts, and if the difference between the NBBO or the difference between the internal best bid and the internal best offer is $0.01, the Crossing Transaction must be entered at a price that is: on the same side of the market as the Agency Order, (i) equal to or better than the NBBO and (ii) *better than any Limit Order on the Limit Order book. If the Agency Order is for a Non-Priority Customer, the Agency Order must also be better than any quote on the same side of the market as the Agency Order*. Today, Phlx Options 3, Section 13(a)(1)(B)(ii) has this identical entry check. With this proposed change, if the Agency Order is for less than 50 option contracts, and if the difference between the NBBO or the difference between the internal best bid and the internal best offer is $0.01, the Initiating Member must stop the entire Agency Order at a price that is on the same side of the market as the Agency Order, equal to or better than the NBBO[7] and better than any Limit Order on the Limit Order Book. The Exchange is removing the check against the quote for Priority Customers, similar to Phlx. If the Agency Order is for a Non-Priority Customer, the Agency Order must also be better than any quote on the same side of the market as the Agency Order. The System will check if the Agency Order is better than any quote on the same side of the market as the Agency Order if the Agency Order is for

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[7]   For example, if the market is 0.98 bid and 0.99 offer, a Priority Customer Agency Order to buy for less than 50 contracts must be stopped at 0.98 cents in this scenario to be accepted into a PIM Auction, provided there is no resting order or quote on the Limit Order book at 0.98 in which case the Agency Order would be rejected.

a Non-Priority Customer.

Additionally, the Exchange proposes to amend GEMX Options 3, Section 13(b)(2)(B)(i). Currently, Options 3, Section 13(b)(2)(B)(i) provides if an Agency Order is for the account of a Priority Customer, and such order is for 50 option contracts or more, or if the difference between the NBBO or the difference between the internal BBO is greater than $0.01, a Crossing Transaction must be entered only at a price that is: (A) equal to or better than the internal BBO and NBBO on the opposite side of the market from the Agency Order, and (B) on the same side of the market as the Agency Order, (i) at least $0.01 better than any Limit Order or quote on the GEMX order book, and (ii) equal to or better than the NBBO. At this time, the Exchange proposes to amend the same side prong of the entry check to require if an Agency Order is for the account of a Priority Customer, and such order is for 50 option contracts or more, or if the difference between the NBBO or the difference between the internal BBO is greater than $0.01, a Crossing Transaction must be entered only at a price that is: on the same side of the market as the Agency Order, (i) at least $0.01 better than any Limit Order on the Limit Order Book, and (ii) equal to or better than the NBBO which is identical to Phlx Options 3, Section 13(a)(2)(B)(iii). The eligibility requirements if the Agency Order is for the account of a Priority Customer and such order is for 50 option contracts or more should provide a meaningful opportunity for price improvement, and thereby benefit investors and others in a manner that is consistent with the Act.

The Exchange proposes to amend Options 3, Section 13(c) to add language regarding Improvement Orders in a PIM Auction. Today, multiple Improvement Orders from the same Member may be submitted during the Auction. Multiple Improvement

Orders at a particular price point submitted by a Member in response to an exposure period may not exceed, in the aggregate, the size of the Crossing Transaction. However, a Member using the same badge[8]/mnemonic[9] may only submit a single Improvement Order per auction ID for a given auction. If an additional Improvement Order is submitted for the same auction ID from the same badge/mnemonic, then that Improvement Order will automatically replace the previous Improvement Order. The Exchange proposes to make clear in its rules that it would not allow Members to submit multiple Improvement Orders using the same badge/mnemonic and would also not aggregate all of those Improvement Orders at the same price. The Exchange proposes to make clear that additional Improvement Orders from the same badge/mnemonic for the same auction ID will automatically replace the previous Improvement Orders. This foregoing handling of Improvement Orders is consistent with the current System handling of Improvement Orders.

Options 3, Section 15

The Exchange proposes to amend Options 3, Section 15(a)(1)(A) to note that the Order Price Protection ("OPP") does not apply to Stop Limit Orders until elected. Because a Stop Order does not execute upon entry, and instead rests in the System until the market reaches a certain price level, at which time the order could be executed, the Exchange does not apply the OPP protection to this order type upon its receipt. Once the Stop Limit Order is elected, the Exchange checks the Limit Order against the OPP

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[8]   A "badge" shall mean an account number, which may contain letters and/or numbers, assigned to Market Makers. A Market Maker account may be associated with multiple badges. See Options 1, Section 1(a)(5).

[9]   A "mnemonic" shall mean an acronym comprised of letters and/or numbers assigned to Electronic Access Members. An Electronic Access Member account may be associated with multiple mnemonics. See Options 1, Section 1(a)(23).

bounds. The Exchange proposes to amend the OPP language to make clear to Members

that a Stop Limit Order does not trigger OPP since OPP is a risk protection that activates

when the limit price of an order is too far through the contra-side BBO. In this case,

since Stop Limit Orders do not have a limit price until they are elected, OPP could not

apply until the contingency is satisfied. The rule text makes clear to Members when OPP

will apply to a Stop Limit Order so that Members understand the System handling.

The Exchange proposes to amend a citation related to the Market Wide Risk

Protection at Options 3, Section 15(a)(1)(C)(iii) to change a citation from "(b)(1)(D)" to

"(ii)." This amendment is non-substantive.

The Exchange proposes to amend Options 3, Section 15(a)(2)(A), Acceptable

Trade Range. Today, the Exchange's System calculates an Acceptable Trade Range to

limit the range of prices at which an order and/or quote will be allowed to execute. Upon

posting of an order at the outer limit of the Acceptable Trade Range, either the current

Threshold Price of the order/quote or an updated NBB for buy orders/quotes or the NBO

for sell orders/quotes (whichever is higher for a buy order/quote or lower for a sell

order/quote) then becomes the reference price for calculating a new Acceptable Trade

Range. If the order/quote remains unexecuted after the Posting Period, a new Acceptable

Trade Range will be calculated and the order/quote will execute, route, or post up to the

new Threshold Price. The Exchange proposes to amend the current rule text to state that

a Member may request that their quotes/orders be returned if the quotes/orders would

post at the outer limit of the Acceptable Trade Range, in which case, the quotes/orders

will be returned. This functionality, which is not specified in the current rule, provides a

Member with additional choices as to the price at which their order could execute. The

Exchange proposes to reflect this existing functionality in Options 3, Section 15(a)(2)(A) to make clear that the choice exists to have an order returned. Today, Phlx also offers this functionality.[10]

Options 3, Section 22

The Exchange proposes to amend citations in Options 3, Section 22(c) to the Solicited Order Mechanism ("SOM") and the Facilitation Mechanism to cite to the single-leg SOM and Facilitation Mechanism and correct an incorrect cite. The Exchange proposes to capitalize references to Reserve Order, which is a defined order type.

Options 3, Section 23

The Exchange proposes to amend a technical error in Options 3, Section 23(b)(3), related to FIX Drop, to add a missing "has" to the sentence. This amendment is non-substantive.

Options 3A

The Exchange proposes to reserve Options 3A. On ISE, this section contains FLEX rules which do not exist for GEMX.[11]

Implementation

The Exchange proposes to specify an implementation date, other than 30 days from the filing, for the proposed amendments to auction responses that amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the Price Improvement Mechanism ("PIM") in Options

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[10]   See Phlx Options 3, Section 15(b)(1)(B).

[11]   See Securities Exchange Act Release No. 101720 (November 22, 2024), (SR-ISE-2024-12) (not yet noticed). This rule change is approved, but not yet implemented. ISE filed to establish a FLEX Order type.

3, Section 13(c)(2). The Exchange proposes to implement these changes on or before Q2

2026. Additionally, the Exchange proposes to amend the rule change related to the entry

checks in Options 3, Section 13(b)(1) and (2) on or before the end of Q2 2026. The

Exchange will specify the exact dates for each of the proposed changes in an Options

Trader Alert at least 30 days prior to the operative date.

   b.   Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section

6(b) of the Act,[12] in general, and furthers the objectives of Section 6(b)(5) of the Act,[13] in

particular, in that it is designed to promote just and equitable principles of trade, to

remove impediments to and perfect the mechanism of a free and open market and a

national market system, and, in general to protect investors and the public interest.

Options 3, Section 7

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d)

related to a Stop Order, as well as Options 3, Section 7(e) related to a Stop Limit Order,

is consistent with the Act because would systematically prevent a Stop Order from being

elected at the time of a late or, out-of-sequence report, rather than the execution price at

the actual time of execution would not cause a Stop Order or Stop Limit Order to be

elected. The Exchange believes that describing how the System operates in the case of a

Stop Order or Stop Limit Order sets the expectation for Members thereby protecting

investors and the public interest. Today, Phlx notes this behavior with respect to its Stop

Order.[14]

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[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

[14]   See Phlx Options 3, Section 7(b)(4). Phlx Stop Orders include Stop limit orders.

Auction Responses

The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders is consistent with the Act because the proposed rule change is intended to protect investors and the public interest. By way of example, during an auction, once an order or quote is received on the opposite side of the PIM, Facilitation, or Solicitation Agency Order which is marketable with the Agency Order, it changes the internal BBO and potentially the NBBO. If such initial order or quote does not comprise enough size to fully satisfy the PIM, Facilitation, or Solicitation Agency Order, since it has changed the internal BBO/NBBO, it now prevents Responses or Improvement Orders which improve the stop price of the auction from being entered at a price that is inferior to the initial order or quote, despite such initial order or quote's inability to satisfy the full volume of the Agency Order at an improved price. By utilizing the better of the internal BBO or the NBBO at the start of the relevant auction, the Exchange believes that better priced responses would be permitted to trade with the order to be facilitated, Agency Order or Crossing Transaction. Today, those better priced responses would be rejected. This proposal would permit a response to these auctions to be entered at a price that is equal to or better than the better of the internal BBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the Response is received, thereby preventing potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction. This amendment would allow other

responses to that auction to be entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction, but is inferior to such other quote/order responses which improved upon the internal BBO or NBBO. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal BBO/NBBO while not fully satisfying the Agency Order, thus preventing Responses or Improvement Orders from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the response because only interest on the same side of the response will be eligible to trade with the auctioned order. The proposed amendments would allow orders to be facilitated, Agency Orders or Crossing Transactions to potentially trade at improved prices.

Options 3, Section 13

Amending GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a Priority Customer, in addition to being equal to or better than the NBBO, must be better than any Limit Order on the same side of the market as the Agency Order, and not a quote is consistent with the Act because this proposal will allow additional PIM Auctions to commence for Priority Customer Agency Orders since the entry check would not consider quotes. The Exchange will continue to consider all interest (quotes and orders) for Non-Priority Customers as is the case today. This change will not impact the handling of orders and quotes and their respective priority on the limit order book. This proposed change is being made for orders of Priority Customers that are

less than 50 contracts and for orders that are more than 50 contracts. Priority Customers will continue to be guaranteed at least the NBBO when commencing PIM Orders and will continue to not trade-through the Exchange's order book. The Exchange believes that the proposal should continue to provide a Priority Customer Agency Order a meaningful opportunity for price improvement, and thereby benefit investors and others in a manner that is consistent with the Act. The proposal is identical to PIXL entry checks at Phlx Options 3, Section 13(a)(1)(B) and (a)(2)(B).

The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language regarding Improvement Orders in a PIM Auction is consistent with the Act. The proposal makes clear the current handling of Improvement Orders by not allowing Members to submit multiple Improvement Orders using the same badge/mnemonic and would also not aggregate all of those Improvement Orders at the same price. Further, additional Improvement Orders from the same badge/mnemonic for the same auction ID will automatically replace the previous Improvement Orders. This foregoing handling of Improvement Orders protects investors and the public interest.

Options 3, Section 15

The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) is consistent with the Act and protects investors and the public interest because it makes clear to Members that a Stop Limit Order does not trigger OPP since OPP is a risk protection that activates when the limit price of an order is too far through the contra-side BBO. In this case, since Stop Limit Orders do not have a limit price until they are elected, OPP could not apply until the contingency is satisfied. The rule text makes clear to Members when OPP will apply when a Stop Limit Order is entered.

The Exchange's proposal to amend Options 3, Section 15(a)(1)(C)(iii) to correct a citation to a subparagraph from "(b)(1)(D)" to "(ii)" is non-substantive.

The Exchange's proposal to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range, to provide that a Member may request that their quotes/orders be returned if the quotes/orders would post at the outer limit of the Acceptable Trade Range, in which case, the quotes/orders will be returned is consistent with the Act. This functionality, which is not specified in the current rule, provides a Member with additional choices as to the price at which their order/quote could execute. The Exchange proposes to reflect this existing functionality in Options 3, Section 15(a)(2)(A) to make clear that the choice exists to have an order/quote returned. Today, Phlx offers this functionality.[15]

Options 3, Section 22

The Exchange's proposal to amend citations in Options 3, Section 22(c) to the SOM and the Facilitation Mechanism to cite to the single-leg SOM and Facilitation Mechanism and correct an incorrect cite are non-substantive amendments. The Exchange's proposal to capitalize references to Reserve Order, which is a defined order type, is a non-substantive amendment.

Options 3, Section 23

The Exchange's proposal to amend a technical error in Options 3, Section 23(b)(3), related to FIX Drop, to add a missing "has" to the sentence is non-substantive.

Options 3A

Reserving GEMX Options 3A will provide Members who are also Member of ISE transparency as to the type of functionality offered on each exchange.

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[15]   See Phlx Options 3, Section 15(b)(1)(B).

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

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

Options 3, Section 7

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d) related to a Stop Order as well as Options 3, Section 7(e) related to Stop Limit Order does not impose an undue burden on intra-market competition because, today, no Member's Stop Order or Stop Limit Order would be elected by a trade that is reported late or out of sequence.

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d) related to a Stop Order does not impose an undue burden on inter-market competition because today Phlx notes this behavior with respect to its Stop Order or Stop Limit Order.[16]

Auction Responses

The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders does not impose an undue burden on intra-market competition as this amendment will be applied uniformly to all orders entered into the Facilitation Mechanism, the Solicited Order Mechanism or a PIM.

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[16]   See Phlx Options 3, Section 7(b)(4) which applies to Stop Orders and Stop limit orders.

The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders does not impose an undue burden on inter-market competition because other options exchanges may adopt a similar rule.

Options 3, Section 13

The Exchange's proposal to amend GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a Priority Customer, in addition to being equal to or better than the NBBO, must be better than any Limit Order on the same side of the market as the Agency Order, and not a quote does not impose an undue burden on intra-market competition because the entry check would apply uniformly to all Priority Customer PIM Agency Orders.

The Exchange's proposal to amend GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a Priority Customer, in addition to being equal to or better than the NBBO, must be better than any Limit Order on the same side of the market as the Agency Order, and not a quote does not impose an undue burden on inter-market competition because other options exchanges could adopt a similar entry check. Today, Phlx Options 3, Section 13(a)(1)(B) and (a)(2)(B) have identical checks.

The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language regarding Improvement Orders in a PIM Auction does not impose an undue burden on intra-market competition because the Exchange would handle all Improvement Orders in a PIM Auction in a uniform manner.

The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language regarding Improvement Orders in a PIM Auction does not impose an undue burden on inter-market competition because other options exchanges may adopt a similar rule.

Options 3, Section 15

The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) to note that the OPP does not apply to Stop Limit Orders until elected does not impose an undue burden on intra-market competition because OPP will uniformly not apply to any Stop Limit Order on the Exchange upon receipt. Once a Stop Limit Order is elected, the Exchange would check such Stop Limit Orders against the OPP bounds.

The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) to note that the OPP does not apply to Stop Limit Orders until elected does not impose an undue burden on inter-market competition because Phlx has a similar rule.[17]

The Exchange's proposal to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range, does not impose an undue burden on intra-market competition because this rule text will apply uniformly to all Members.

The Exchange's proposal to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range, does not impose an undue burden on inter-market competition because BX has this functionality.[18]

Options 3, Section 23

The Exchange's proposal to amend a technical error in Options 3, Section

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

[18]   See BX Options 3, Section 15(b)(1)(A).

23(b)(3), related to FIX Drop, to add a missing "has" to the sentence is non-substantive.

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

        The Exchange does not consent to an extension of the time period for

Commission action.

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)[19] of the Act and Rule 19b-4(f)(6) thereunder[20] in that it effects a change

that: (i) does not significantly affect the protection of investors or the public interest; (ii)

does not impose any significant burden on competition; and (iii) by its terms, does not

become operative for 30 days after the date of the filing, or such shorter time as the

Commission may designate if consistent with the protection of investors and the public

interest.

        The proposal does not significantly affect the protection of investors or the public

interest. The Exchange's proposal to add an additional sentence to Options 3, Section

7(d) related to a Stop Order and Options 3, Section 7(e) related to a Stop Limit Order

does not significantly affect the protection of investors or the public interest because, it

would systematically prevent a Stop Order from being elected at the time of a late or out-

of-sequence report or trade that is outside the NBBO in the case of a complex order,

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[19]   15 U.S.C. 78s(b)(3)(A)(iii).

[20]   17 CFR 240.19b-4(f)(6).

rather than the execution price at the actual time of the execution. The rule text provides

Members with notice that the System will not elect a Stop Order or Stop Limit Order

with a trade that is reported late or out-of-sequence. Today, Phlx notes this behavior with

respect to its Stop Order.[21] Amending the Facilitation Mechanism at Options 3, Section

11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in

Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement

Orders does not significantly affect the protection of investors or the public interest

because the proposal would permit a response to these auctions to be entered at a price

that is equal to or better than the better of the internal BBO or the NBBO on the same

side of the market at the start of the auction, thereby preventing potential auction

manipulation which can occur when an order/quote is entered at a price that improves the

price of the order to be facilitated, Agency Order or Crossing Transaction. Further, this

amendment would allow other responses to that auction to be entered at a price that

improves the price of the order to be facilitated, Agency Order or Crossing Transaction,

but is inferior to such other quote/order responses which improved upon the internal BBO

or NBBO. The proposed amendments would allow order to be facilitated, Agency Order

or Crossing Transaction to potentially trade at improved prices. Amending GEMX's

entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a

Priority Customer, in addition to being equal to or better than the NBBO, must be better

than any Limit Order on the same side of the market as the Agency Order, and not a

quote does not significantly affect the protection of investors or the public interest

because this proposal will allow additional PIM Auctions to commence for Priority

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[21]   See Phlx Options 3, Section 7(b)(4). Phlx's Stop Order includes a Stop limit order.

Customer Agency Orders since the entry check would not consider quotes but will continue to not trade-through the Exchange's order book. The Exchange will continue to consider all interest (quotes and orders) for Non-Priority Customers as is the case today. The proposal is identical to PIXL entry checks at Phlx Options 3, Section 13(a)(1)(B) and (a)(2)(B). The Exchange's proposal to amend Options 3, Section 13 to add language regarding Improvement Orders in a PIM Auction does not significantly affect the protection of investors or the public interest because the Exchange would not allow Members to submit multiple Improvement Orders using the same badge/mnemonic and would also not aggregate all of those Improvement Orders at the same price. Further, additional Improvement Orders from the same badge/mnemonic for the same auction ID will automatically replace the previous Improvement Orders. The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) to note that OPP does not apply to Stop Limit Orders until elected does not significantly affect the protection of investors or the public interest because Stop Limit Orders do not have a limit price until they are elected; OPP could not apply until the contingency is satisfied. Amending Options 3, Section 15(a)(2)(A), Acceptable Trade Range, to provide that a Member may request that their quotes/orders be returned if the quotes/orders would post at the outer limit of the Acceptable Trade Range, in which case, the quotes/orders will be returned does not significantly affect the protection of investors or the public interest rather it offers a Member with additional choices as to the price at which their order/quote could execute. Today, Phlx also offers this functionality.[22] The remainder of the changes are non-substantive.

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[22]   See Phlx Options 3, Section 15(b)(1)(B).

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d) related to a Stop Order as well as Options 3, Section 7(e) related to Stop Limit Order does not impose any significant burden on competition because, today, no Member's Stop Order or Stop Limit Order would be elected by a trade that is reported late or out-of-sequence. The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders does not impose any significant burden on competition as this amendment will be applied uniformly to all orders entered into the Facilitation Mechanism, the Solicited Order Mechanism or a PIM. The Exchange's proposal to amend GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a Priority Customer, in addition to being equal to or better than the NBBO, must be better than any Limit Order on the same side of the market as the Agency Order, and not a quote does a significant burden on competition because the entry check would apply uniformly to all Priority Customer PIM Agency Orders. The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language regarding Improvement Orders in a PIM Auction does not impose a significant burden on competition because the Exchange would handle all Improvement Orders in a PIM Auction in a uniform manner. The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) to note that the OPP does not apply to Stop Limit Orders until elected does not impose any significant burden on competition because OPP will uniformly not apply to any Stop Limit Order until elected on the Exchange. Once a Stop Limit Order is elected, the Exchange would check all Stop Limit Orders against the OPP bounds. The Exchange's proposal to amend Options 3,

Section 15(a)(2)(A), Acceptable Trade Range, does not impose any significant burden on competition because this rule text will apply uniformly to all Members. The remainder of the changes are non-substantive.

Furthermore, Rule 19b-4(f)(6)(iii)[23] 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.   <u>Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission</u>

The Exchange proposal to amend Options 3, Section 7(d), related to Stop Orders and Stop Limit Orders at Options 3, Section 7(d) are substantially similar to Phlx Options 3, Section 7(b)(4). Unlike Phlx, GEMX does not offer complex orders.

The Exchange proposal to amend the GEMX PIM entry checks in Options 3, Section 13(b)(1) and (2) is identical to Phlx Options 3, Section 13(a)(1)(B) and (a)(2)(B).

The Exchange proposal to amend Options 3, Section 15(a)(2)(A), related to the Acceptable Trade Range, is identical to behavior at BX Options 3, Section 15(b)(1)(A).

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[23]   17 CFR 240.19b-4(f)(6)(iii).

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

Not applicable.

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

Not applicable.

11.   Exhibits

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

5.   Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-GEMX-2025-06)

January __, 2025

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Various Options Rules

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 February 6, 2025, 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 various options rules to: (1) further define a

Stop Order and Stop Limit Order at Options 3, Section 7(d) and (e); (2) amend the

treatment of responses in the Facilitation Mechanism in Options 3, Section 11(b),

Solicited Order Mechanism in Options 3, Section 11(d) and Price Improvement

Mechanism ("PIM") in Options 3, Section 13 and clarify how multiple responses are

treated; (3) describe the application of the Order Price Protection to Stop-Limit Orders at

Options 3, Section 15(a)(1)(A), amend the parameters for the Market Wide Risk

Protection at Options 3, Section 15(a)(1)(C), and amend the Acceptable Trade Range at

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

[2]   17 CFR 240.19b-4.

Options 3, Section 15(a)(2)(A); and (4) make other various non-substantive and technical amendments.

The text of the proposed rule change is available on the Exchange's Website at https://listingcenter.nasdaq.com/rulebook/gemx/rulefilings, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

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

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

1.   Purpose

The Exchange proposes to amend various Options 3, Options Trading Rules: Section 7, Types of Orders and Order and Quote Protocols; Section 11, Auction Mechanisms; Section 13, Price Improvement Mechanism for Crossing Transactions; Section 15, Simple Order Risk Protections; Section 22, Limitations on Order Entry; and Section 23, Data Feeds and Trade Information. The Exchange also proposes to reserve Options 3A. Each change will be described below.

Options 3, Section 7

The Exchange proposes to add an additional sentence to Options 3, Section 7(d) related to a Stop Order. Today, Options 3, Section 7(d) provides,

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.

Today, a Stop Order is not elected by a trade that is reported late or out of sequence. The purpose of this provision is to ensure systematically that a Stop Order would be elected on the Exchange by the execution price at the actual time of the execution, instead of at the time of a late or out-of-sequence report. Absent this provision, it would be possible for a Stop Order to be elected by a trade that is reported late or out-of-sequence, which could result in such Stop Order being converted into a Market Order or a Limit Order and, in the case of a Stop Order executed at a significantly different price than the election price of the Stop Order.[3] For these reasons, a similar sentence would also be added to Options 3, Section 7(e) related to a Stop Limit Order. The Exchange proposes to make clear what would elect a Stop Order or a Stop Limit Order in its rules so that Members may anticipate that a late, out-of-sequence report, would not cause a Stop Order or Stop Limit Order to be elected. Today, Nasdaq Phlx LLC ("Phlx") notes this behavior with respect to its Stop Order.[4]

The Exchange proposes to amend the description of a PIM Order at Options 3, Section 7(y) to remove the "A" before "PIM Order." The Exchange also proposes to

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[3]   For example, if a Stop Order to sell at $3.00 is elected by a trade reported late or out-of-sequence with an execution price of $3.00 when the actual bid price at the time of the report is $1.00, the Stop Order would be converted into a market order and executed at $1.00.

[4]   See Phlx Options 3, Section 7(b)(4). Phlx's current Stop Order applies to Stop limit orders as well as noted in Options 3, Section 7(b)(4)(A). Unlike Phlx, GEMX does not offer complex orders.

reserve "z" which on Nasdaq ISE, LLC ("ISE") has a description of an order type which order type is not currently on GEMX.[5]

Auction Responses

The Exchange proposes to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the Price Improvement Mechanism ("PIM") in Options 3, Section 13(c)(2) to amend the current System behavior with respect to the handling of Response and Improvement Orders. Today, a Response or Improvement Order must be equal to or better than the displayed NBBO on both sides of the market at the time of receipt of the Response or Improvement Order in both the Facilitation Mechanism and the Solicited Order Mechanism, as well as in a PIM. While the current rules do not make this clear, this represents the Exchange's current practice.

Specifically, the Exchange proposes to amend the System behavior to permit a response to these auctions to be entered at a price that is equal to or better than the better of the internal BBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the Response is received. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal BBO/NBBO while not fully satisfying the Agency Order, thus preventing Responses or Improvement Orders from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or

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quote. In contrast, for the opposite side check, it is not necessary to use the price of the market at the time of the start of the auction because potential manipulation cannot occur on the opposite side check as the NBBO cannot be updated on the same side by submitting interest into the auction. The proposed amendment is intended to prevent potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction.

The Exchange proposes to amend the current rule because, in certain cases, the current rule prevents other responses to that auction to be entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction, but is inferior to such other quote/order responses which improved upon the internal BBO or NBBO. By way of example, during an auction, once an order or quote is received on the opposite side of the PIM, Facilitation, or Solicitation Agency Order which is marketable with the Agency Order, it changes the internal BBO and potentially the NBBO. If such initial order or quote does not comprise enough size to fully satisfy the PIM, Facilitation, or Solicitation Agency Order, since it has changed the internal BBO/NBBO, it now prevents Responses or Improvement Orders which improve the stop price of the auction from being entered at a price that is inferior to the initial order or quote, despite such initial order or quote's inability to satisfy the full volume of the Agency Order at an improved price. By utilizing the better of the internal BBO or the NBBO at the start of the relevant auction, the Exchange believes that better priced responses would be permitted to trade with the order to be facilitated, Agency Order or Crossing Transaction. Today, those better priced responses would be rejected. The proposed amendments

would allow orders to be facilitated, and the Agency Order or Crossing Transaction to potentially trade at improved prices.

Below are examples of this functionality change.

Example 1

Internal BBO – $1.15 x $1.30

NBBO – $1.10 x $1.35

PIM Order to sell is entered with Customer on Agency side selling 100 contracts with a stop price of $1.18.

Order 1 is entered to Buy 1 @ $1.25 – accepted based on market at start of auction $1.15 x $1.30.

Auction response 1 is entered to Buy 100 @ $1.20 – With entry check modification, accepted based on market at start of auction $1.15 x $1.30.

Under current system entry checks, PIM Auction response 1 would be rejected because the system would look at the market of $1.25 x $1.30, and the PIM Auction would conclude after the timer has run the full 100 milliseconds and partially trade with Order 1 at $1.25 and with a final auction price of $1.18. The remainder of the Agency Order would trade with the contra-side order at $1.18.

Under new system entry checks, the PIM Auction would conclude and partially trade with Order 1 at $1.25 and then trade the remainder of the Agency Order at a price of $1.20 based off of the acceptance of Auction Response 1.

Example 2

Internal BBO – $23.90 x $28.50

NBBO – $23.90 x $28.50 (Singly listed on GEMX)

PIM Order to sell is entered with Customer on Agency selling 100 contracts with an Agency Order price of $26.20.

Quote is entered to buy 1 contract @ $27.40 (updating NBBO to $27.40 x $28.50) Auction Response 1 is entered to Buy 100 @ $26.72 – With entry check modification, accepted based on market at start of auction $23.90 x $28.50.

Under current system entry checks, Auction response 1 would be rejected because the system would look at the market of $27.40 x $28.50, and the PIM Auction would

conclude after the timer has run the full 100 milliseconds and partially trade with quote @ $27.40 and with contra at a final auction price of $26.20.

Under new system entry checks, the PIM Auction would conclude and partially trade with quote @ $27.40 and with Auction Response and contra (assuming the contra elected to automatically match the response) at a final auction price of $26.72 based off of the acceptance of Auction Response 1.

The Exchange is not amending Options 3, Section 13(b)(3) because the same side of the market entry check currently conforms to Phlx Options 3, Section 13(a)(3) which requires that on the same side of the market as the PIXL Order, the better of: (i) the Reference BBO price improved by at least $0.01, (ii) the PIXL Order's limit price (if the order is a Limit Order), or (iii) equal to or better than the NBBO. In harmonizing its auction rules, the Exchange is conforming to Phlx PIXL entry checks. Currently, on Phlx, if the PIXL Order is for a Non-Public Customer, the PIXL Order must also be better than any quote on the same side of the market as the PIXL Order. Priority Customers may start a PIM Auction equal to a quote as these market participants would have priority over all other market participants if a Priority were to submit an order to the order book. In contrast, a broker dealer or any other person or entity that is not a Priority would not have this priority with respect to a Market Maker quote. The Exchange's current rule text at Options 3, Section 13(b)(3) is the same as Phlx Options 3, Section 13(a)(3).

Options 3, Section 13

The Exchange proposes to amend Options 3, Section 13(b)(1) and (2) to align its entry check with Phlx Options 3, Section 13, Price Improvement XL ("PIXL") entry checks.[6] Specifically, the Exchange proposes to amend its entry check where the PIM

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[6]   Today, Phlx Options 3, Section 13(b)(3) PIXL entry checks for the account of a broker dealer or any other person or entity that is not a Public Customer for orders of 50 contracts or more are the

Agency Order is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") or the difference between the internal best bid and the internal best offer is $0.01; currently, the Crossing Transaction must be entered at a price that is: $0.01 better than the NBBO and the internal BBO on the opposite side of the market from the Agency Order and on the same side of the market as the Agency Order, (i) equal to or better than the NBBO and (ii) better than any Limit Order or quote on the GEMX order book. At this time, the Exchange proposes to instead provide that where a PIM Agency Order is for less than 50 option contracts, and if the difference between the NBBO or the difference between the internal best bid and the internal best offer is $0.01, the Crossing Transaction must be entered at a price that is: on the same side of the market as the Agency Order, (i) equal to or better than the NBBO and (ii) *better than any Limit Order on the Limit Order book. If the Agency Order is for a Non-Priority Customer, the Agency Order must also be better than any quote on the same side of the market as the Agency Order*. Today, Phlx Options 3, Section 13(a)(1)(B)(ii) has this identical entry check. With this proposed change, if the Agency Order is for less than 50 option contracts, and if the difference between the NBBO or the difference between the internal best bid and the internal best offer is $0.01, the Initiating Member must stop the entire Agency Order at a price that is on the same side of the

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same checks that are currently in place at Phlx Options 3, Section 13(a)(3) for the account of a broker dealer or any other person or entity that is not a Public Customer for orders of 50 contracts or more. Phlx's current rule text defines the "internal PBBO" as the "Reference BBO" at Options 3, Section 13(a)(3)(A). Phlx's same side entry check for the account of a broker dealer or any other person or entity that is not a Public Customer for orders of 50 contracts or more, requires the Reference PBBO price to be improved by at least $0.01 which is analogous to requiring a PIXL Order's quote to be better than the same side of the market as the PIXL Order, similar to ISE's entry check for this category of PIM Order. Of note, Phlx will separately amend its rule text at Options 3, Section 13(a)(3) to align that rule text with ISE, GEMX and MRX Options 3, Section 13(b)(3).

market as the Agency Order, equal to or better than the NBBO[7] and better than any Limit

Order on the Limit Order Book. The Exchange is removing the check against the quote

for Priority Customers, similar to Phlx. If the Agency Order is for a Non-Priority

Customer, the Agency Order must also be better than any quote on the same side of the

market as the Agency Order. The System will check if the Agency Order is better than

any quote on the same side of the market as the Agency Order if the Agency Order is for

a Non-Priority Customer.

Additionally, the Exchange proposes to amend GEMX Options 3, Section

13(b)(2)(B)(i). Currently, Options 3, Section 13(b)(2)(B)(i) provides if an Agency Order

is for the account of a Priority Customer, and such order is for 50 option contracts or

more, or if the difference between the NBBO or the difference between the internal BBO

is greater than $0.01, a Crossing Transaction must be entered only at a price that is: (A)

equal to or better than the internal BBO and NBBO on the opposite side of the market

from the Agency Order, and (B) on the same side of the market as the Agency Order, (i)

at least $0.01 better than any Limit Order or quote on the GEMX order book, and (ii)

equal to or better than the NBBO. At this time, the Exchange proposes to amend the

same side prong of the entry check to require if an Agency Order is for the account of a

Priority Customer, and such order is for 50 option contracts or more, or if the difference

between the NBBO or the difference between the internal BBO is greater than $0.01, a

Crossing Transaction must be entered only at a price that is: on the same side of the

market as the Agency Order, (i) at least $0.01 better than any Limit Order on the Limit

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7   For example, if the market is 0.98 bid and 0.99 offer, a Priority Customer Agency Order to buy for
         less than 50 contracts must be stopped at 0.98 cents in this scenario to be accepted into a PIM
         Auction, provided there is no resting order or quote on the Limit Order book at 0.98 in which case
         the Agency Order would be rejected.

Order Book, and (ii) equal to or better than the NBBO which is identical to Phlx Options 3, Section 13(a)(2)(B)(iii). The eligibility requirements if the Agency Order is for the account of a Priority Customer and such order is for 50 option contracts or more should provide a meaningful opportunity for price improvement, and thereby benefit investors and others in a manner that is consistent with the Act.

The Exchange proposes to amend Options 3, Section 13(c) to add language regarding Improvement Orders in a PIM Auction. Today, multiple Improvement Orders from the same Member may be submitted during the Auction. Multiple Improvement Orders at a particular price point submitted by a Member in response to an exposure period may not exceed, in the aggregate, the size of the Crossing Transaction. However, a Member using the same badge[8]/mnemonic[9] may only submit a single Improvement Order per auction ID for a given auction. If an additional Improvement Order is submitted for the same auction ID from the same badge/mnemonic, then that Improvement Order will automatically replace the previous Improvement Order. The Exchange proposes to make clear in its rules that it would not allow Members to submit multiple Improvement Orders using the same badge/mnemonic and would also not aggregate all of those Improvement Orders at the same price. The Exchange proposes to make clear that additional Improvement Orders from the same badge/mnemonic for the same auction ID will automatically replace the previous Improvement Orders. This

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[8]   A "badge" shall mean an account number, which may contain letters and/or numbers, assigned to Market Makers. A Market Maker account may be associated with multiple badges. See Options 1, Section 1(a)(5).

[9]   A "mnemonic" shall mean an acronym comprised of letters and/or numbers assigned to Electronic Access Members. An Electronic Access Member account may be associated with multiple mnemonics. See Options 1, Section 1(a)(23).

foregoing handling of Improvement Orders is consistent with the current System handling of Improvement Orders.

Options 3, Section 15

The Exchange proposes to amend Options 3, Section 15(a)(1)(A) to note that the Order Price Protection ("OPP") does not apply to Stop Limit Orders until elected. Because a Stop Order does not execute upon entry, and instead rests in the System until the market reaches a certain price level, at which time the order could be executed, the Exchange does not apply the OPP protection to this order type upon its receipt. Once the Stop Limit Order is elected, the Exchange checks the Limit Order against the OPP bounds. The Exchange proposes to amend the OPP language to make clear to Members that a Stop Limit Order does not trigger OPP since OPP is a risk protection that activates when the limit price of an order is too far through the contra-side BBO. In this case, since Stop Limit Orders do not have a limit price until they are elected, OPP could not apply until the contingency is satisfied. The rule text makes clear to Members when OPP will apply to a Stop Limit Order so that Members understand the System handling.

The Exchange proposes to amend a citation related to the Market Wide Risk Protection at Options 3, Section 15(a)(1)(C)(iii) to change a citation from "(b)(1)(D)" to "(ii)." This amendment is non-substantive.

The Exchange proposes to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range. Today, the Exchange's System calculates an Acceptable Trade Range to limit the range of prices at which an order and/or quote will be allowed to execute. Upon posting of an order at the outer limit of the Acceptable Trade Range, either the current Threshold Price of the order/quote or an updated NBB for buy orders/quotes or the NBO

for sell orders/quotes (whichever is higher for a buy order/quote or lower for a sell order/quote) then becomes the reference price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted after the Posting Period, a new Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Threshold Price. The Exchange proposes to amend the current rule text to state that a Member may request that their quotes/orders be returned if the quotes/orders would post at the outer limit of the Acceptable Trade Range, in which case, the quotes/orders will be returned. This functionality, which is not specified in the current rule, provides a Member with additional choices as to the price at which their order could execute. The Exchange proposes to reflect this existing functionality in Options 3, Section 15(a)(2)(A) to make clear that the choice exists to have an order returned. Today, Phlx also offers this functionality.[10]

Options 3, Section 22

The Exchange proposes to amend citations in Options 3, Section 22(c) to the Solicited Order Mechanism ("SOM") and the Facilitation Mechanism to cite to the single-leg SOM and Facilitation Mechanism and correct an incorrect cite. The Exchange proposes to capitalize references to Reserve Order, which is a defined order type.

Options 3, Section 23

The Exchange proposes to amend a technical error in Options 3, Section 23(b)(3), related to FIX Drop, to add a missing "has" to the sentence. This amendment is non-substantive.

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[10]   See Phlx Options 3, Section 15(b)(1)(B).

Options 3A

The Exchange proposes to reserve Options 3A. On ISE, this section contains FLEX rules which do not exist for GEMX.[11]

Implementation

The Exchange proposes to specify an implementation date, other than 30 days from the filing, for the proposed amendments to auction responses that amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the Price Improvement Mechanism ("PIM") in Options 3, Section 13(c)(2). The Exchange proposes to implement these changes on or before Q2 2026. Additionally, the Exchange proposes to amend the rule change related to the entry checks in Options 3, Section 13(b)(1) and (2) on or before the end of Q2 2026. The Exchange will specify the exact dates for each of the proposed changes in an Options Trader Alert at least 30 days prior to the operative date.

2.   Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,[12] in general, and furthers the objectives of Section 6(b)(5) of the Act,[13] 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.

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[11]   See Securities Exchange Act Release No. 101720 (November 22, 2024), (SR-ISE-2024-12) (not yet noticed). This rule change is approved, but not yet implemented. ISE filed to establish a FLEX Order type.

[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

Options 3, Section 7

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d) related to a Stop Order, as well as Options 3, Section 7(e) related to a Stop Limit Order, is consistent with the Act because would systematically prevent a Stop Order from being elected at the time of a late or, out-of-sequence report, rather than the execution price at the actual time of execution would not cause a Stop Order or Stop Limit Order to be elected. The Exchange believes that describing how the System operates in the case of a Stop Order or Stop Limit Order sets the expectation for Members thereby protecting investors and the public interest. Today, Phlx notes this behavior with respect to its Stop Order.[14]

Auction Responses

The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders is consistent with the Act because the proposed rule change is intended to protect investors and the public interest. By way of example, during an auction, once an order or quote is received on the opposite side of the PIM, Facilitation, or Solicitation Agency Order which is marketable with the Agency Order, it changes the internal BBO and potentially the NBBO. If such initial order or quote does not comprise enough size to fully satisfy the PIM, Facilitation, or Solicitation Agency Order, since it has changed the internal BBO/NBBO, it now prevents Responses or Improvement Orders which improve the stop price of the auction from being entered at a price that is inferior

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[14]   See Phlx Options 3, Section 7(b)(4). Phlx Stop Orders include Stop limit orders.

to the initial order or quote, despite such initial order or quote's inability to satisfy the full volume of the Agency Order at an improved price. By utilizing the better of the internal BBO or the NBBO at the start of the relevant auction, the Exchange believes that better priced responses would be permitted to trade with the order to be facilitated, Agency Order or Crossing Transaction. Today, those better priced responses would be rejected. This proposal would permit a response to these auctions to be entered at a price that is equal to or better than the better of the internal BBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the Response is received, thereby preventing potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction. This amendment would allow other responses to that auction to be entered at a price that improves the price of the order to be facilitated, Agency Order or Crossing Transaction, but is inferior to such other quote/order responses which improved upon the internal BBO or NBBO. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal BBO/NBBO while not fully satisfying the Agency Order, thus preventing Responses or Improvement Orders from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the response because only interest on the same side of the response will be eligible to trade with the auctioned order. The proposed

amendments would allow orders to be facilitated, Agency Orders or Crossing

Transactions to potentially trade at improved prices.

Options 3, Section 13

Amending GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that

an Agency Order for a Priority Customer, in addition to being equal to or better than the

NBBO, must be better than any Limit Order on the same side of the market as the

Agency Order, and not a quote is consistent with the Act because this proposal will allow

additional PIM Auctions to commence for Priority Customer Agency Orders since the

entry check would not consider quotes. The Exchange will continue to consider all

interest (quotes and orders) for Non-Priority Customers as is the case today. This change

will not impact the handling of orders and quotes and their respective priority on the limit

order book. This proposed change is being made for orders of Priority Customers that are

less than 50 contracts and for orders that are more than 50 contracts. Priority Customers

will continue to be guaranteed at least the NBBO when commencing PIM Orders and will

continue to not trade-through the Exchange's order book. The Exchange believes that the

proposal should continue to provide a Priority Customer Agency Order a meaningful

opportunity for price improvement, and thereby benefit investors and others in a manner

that is consistent with the Act. The proposal is identical to PIXL entry checks at Phlx

Options 3, Section 13(a)(1)(B) and (a)(2)(B).

The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language

regarding Improvement Orders in a PIM Auction is consistent with the Act. The

proposal makes clear the current handling of Improvement Orders by not allowing

Members to submit multiple Improvement Orders using the same badge/mnemonic and

would also not aggregate all of those Improvement Orders at the same price. Further, additional Improvement Orders from the same badge/mnemonic for the same auction ID will automatically replace the previous Improvement Orders. This foregoing handling of Improvement Orders protects investors and the public interest.

Options 3, Section 15

The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) is consistent with the Act and protects investors and the public interest because it makes clear to Members that a Stop Limit Order does not trigger OPP since OPP is a risk protection that activates when the limit price of an order is too far through the contra-side BBO. In this case, since Stop Limit Orders do not have a limit price until they are elected, OPP could not apply until the contingency is satisfied. The rule text makes clear to Members when OPP will apply when a Stop Limit Order is entered.

The Exchange's proposal to amend Options 3, Section 15(a)(1)(C)(iii) to correct a citation to a subparagraph from "(b)(1)(D)" to "(ii)" is non-substantive.

The Exchange's proposal to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range, to provide that a Member may request that their quotes/orders be returned if the quotes/orders would post at the outer limit of the Acceptable Trade Range, in which case, the quotes/orders will be returned is consistent with the Act. This functionality, which is not specified in the current rule, provides a Member with additional choices as to the price at which their order/quote could execute. The Exchange proposes to reflect this existing functionality in Options 3, Section 15(a)(2)(A) to make clear that the choice exists to have an order/quote returned. Today, Phlx offers this functionality.[15]

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[15]   See Phlx Options 3, Section 15(b)(1)(B).

Options 3, Section 22

The Exchange's proposal to amend citations in Options 3, Section 22(c) to the SOM and the Facilitation Mechanism to cite to the single-leg SOM and Facilitation Mechanism and correct an incorrect cite are non-substantive amendments. The Exchange's proposal to capitalize references to Reserve Order, which is a defined order type, is a non-substantive amendment.

Options 3, Section 23

The Exchange's proposal to amend a technical error in Options 3, Section 23(b)(3), related to FIX Drop, to add a missing "has" to the sentence is non-substantive.

Options 3A

Reserving GEMX Options 3A will provide Members who are also Member of ISE transparency as to the type of functionality offered on each exchange.

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

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

Options 3, Section 7

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d) related to a Stop Order as well as Options 3, Section 7(e) related to Stop Limit Order does not impose an undue burden on intra-market competition because, today, no Member's Stop Order or Stop Limit Order would be elected by a trade that is reported late or out of sequence.

The Exchange's proposal to add an additional sentence to Options 3, Section 7(d) related to a Stop Order does not impose an undue burden on inter-market competition because today Phlx notes this behavior with respect to its Stop Order or Stop Limit Order.[16]

Auction Responses

The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders does not impose an undue burden on intra-market competition as this amendment will be applied uniformly to all orders entered into the Facilitation Mechanism, the Solicited Order Mechanism or a PIM.

The Exchange's proposal to amend the Facilitation Mechanism at Options 3, Section 11(b)(3), the Solicited Order Mechanism at Options 3, Section 11(d)(2), and the PIM in Options 3, Section 13(c)(2) with respect to the handling of Response and Improvement Orders does not impose an undue burden on inter-market competition because other options exchanges may adopt a similar rule.

Options 3, Section 13

The Exchange's proposal to amend GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a Priority Customer, in addition to being equal to or better than the NBBO, must be better than any Limit Order on the same side of the market as the Agency Order, and not a quote does not impose an undue burden on

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16   See Phlx Options 3, Section 7(b)(4) which applies to Stop Orders and Stop limit orders.

intra-market competition because the entry check would apply uniformly to all Priority Customer PIM Agency Orders.

The Exchange's proposal to amend GEMX's entry checks at Options 3, Section 13(b)(1) and (2) such that an Agency Order for a Priority Customer, in addition to being equal to or better than the NBBO, must be better than any Limit Order on the same side of the market as the Agency Order, and not a quote does not impose an undue burden on inter-market competition because other options exchanges could adopt a similar entry check. Today, Phlx Options 3, Section 13(a)(1)(B) and (a)(2)(B) have identical checks.

The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language regarding Improvement Orders in a PIM Auction does not impose an undue burden on intra-market competition because the Exchange would handle all Improvement Orders in a PIM Auction in a uniform manner.

The Exchange's proposal to amend Options 3, Section 13(c)(4) to add language regarding Improvement Orders in a PIM Auction does not impose an undue burden on inter-market competition because other options exchanges may adopt a similar rule.

Options 3, Section 15

The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) to note that the OPP does not apply to Stop Limit Orders until elected does not impose an undue burden on intra-market competition because OPP will uniformly not apply to any Stop Limit Order on the Exchange upon receipt. Once a Stop Limit Order is elected, the Exchange would check such Stop Limit Orders against the OPP bounds.

The Exchange's proposal to amend Options 3, Section 15(a)(1)(A) to note that the OPP does not apply to Stop Limit Orders until elected does not impose an undue burden on inter-market competition because Phlx has a similar rule.[17]

The Exchange's proposal to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range, does not impose an undue burden on intra-market competition because this rule text will apply uniformly to all Members.

The Exchange's proposal to amend Options 3, Section 15(a)(2)(A), Acceptable Trade Range, does not impose an undue burden on inter-market competition because BX has this functionality.[18]

Options 3, Section 23

The Exchange's proposal to amend a technical error in Options 3, Section 23(b)(3), related to FIX Drop, to add a missing "has" to the sentence is non-substantive.

      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

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17   <u>See</u> Phlx Options 3, Section 7(b)(4).

18   <u>See</u> BX Options 3, Section 15(b)(1)(A).

to Section 19(b)(3)(A)(iii) of the Act[19] and subparagraph (f)(6) of Rule 19b-4 thereunder.[20]

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

IV.   Solicitation of Comments

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

Electronic Comments:

- Use the Commission's internet comment form (https://www.sec.gov/rules/sro.shtml); or

- Send an email to rule-comments@sec.gov. Please include file number SR-GEMX-2025-06 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.

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[19]   15 U.S.C. 78s(b)(3)(A)(iii).

[20]   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.

All submissions should refer to file number SR-GEMX-2025-06. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-GEMX-2025-06 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[21]

Sherry R. Haywood,

Assistant Secretary.

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[21]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq GEMX, LLC Rules

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Options Rules

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Options 3 Options Trading Rules

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Section 7. Types of Orders and Order and Quote Protocols

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(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. <u>A Stop Order shall not be elected by a trade that is reported late or out of sequence.</u>

(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. <u>A Stop Limit Order shall not be elected by a trade that is reported late or out of sequence.</u>

* * * * *

(y) [A] PIM Order. A PIM Order is an order entered into the Price Improvement Mechanism as described in Options 3, Section 13(a).

<u>(z) Reserved.</u>

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Section 11. Auction Mechanisms

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(b) **Facilitation Mechanism**. The Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size order it represents as agent. Electronic Access Members must be willing to execute the entire size of orders entered into the Facilitation Mechanism.

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(3) Responses may be priced at the price of the order to be facilitated or at a better price and will only be considered up to the size of the order to be facilitated. Responses must be entered at a price that is equal to or better than the better of the internal BBO and the NBBO: (1) on the same side of the market at the start of the PIM auction; and (2) on the opposite side of the market at the time the Response is received.

* * * * *

(d) **Solicited Order Mechanism**. The Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute orders of 500 or more contracts it represents as agent (the "Agency Order") against contra orders that it solicited. Each order entered into the Solicited Order Mechanism shall be designated as all-or-none.

* * * * *

(2) Upon entry of both orders into the Solicited Order Mechanism at a proposed execution price, 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 and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to participate in the execution of the Agency Order. Responses must be entered at a price that is equal to or better than the better of the internal BBO and the NBBO: (1) on the same side of the market at the start of the auction; and (2) on the opposite side of the market at the time the Response is received.

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Section 13. Price Improvement Mechanism for Crossing Transactions

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(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.

(1) If the Agency Order is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") or the difference between the internal best bid and the internal best offer is $0.01, the Crossing Transaction must be entered at a price that is:

(A) $0.01 better than the NBBO and the internal BBO on the **opposite side** of the market from the Agency Order and

(B) on the **same side** of the market as the Agency Order,

(i) equal to or better than the NBBO and

(ii) better than any Limit Order [or quote]on the [GEMX]Limit O[o]rder book. If the Agency Order is for a Non-Priority Customer, the Agency Order must also be better than any quote on the same side of the market as the Agency Order.

(2) If the Agency Order is for the account of a Priority Customer, and such order is for 50 option contracts or more, or if the difference between the NBBO or the difference between the internal BBO is greater than $0.01, a Crossing Transaction must be entered only at a price that is:

(A) equal to or better than the internal BBO and NBBO on the **opposite side** of the market from the Agency Order, and

(B) on the **same side** of the market as the Agency Order,

(i) at least $0.01 better than any Limit Order [or quote]on the [GEMX]Limit O[o]rder book, and

(ii) equal to or better than the NBBO.

* * * * *

(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.

* * * * *

(2) Improvement Orders may be entered by all Members in one-cent increments at the same price as the Crossing Transaction or at an improved price for the Agency Order, and will only be considered up to the size of the Agency Order. Improvement Orders must be entered at a price that is equal to or better than the better of the internal BBO and the NBBO: (1) on the same side of the market at the start of the PIM auction; and (2) on the opposite side of the market at the time the Response is received.

* * * * *

(4) During the exposure period, responses (including the Counter-Side Order, Improvement Orders, and any changes to either) submitted by Members shall not be visible to other auction participants. Multiple Improvement Orders from the same Member may be submitted during the Auction. Multiple Improvement Orders at a particular price point submitted by a Member in response to an exposure period may not exceed, in the aggregate, the size of the Crossing Transaction. However, a Member using

the same badge/mnemonic may only submit a single Improvement Order per auction ID for a given auction. If an additional Improvement Order is submitted for the same auction ID from the same badge/mnemonic, then that Improvement Order will automatically replace the previous Improvement Order.

* * * * *

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. OPP applies to all options but does not apply to Stop-Limit Orders until elected.

* * * * *

(C) **Market Wide Risk Protection**. All Members must provide parameters for the order entry and execution rate protections described in this Rule. The Exchange will also establish default values for each of these parameters that apply to Members that do not submit the required parameters, and will announce these default values in an Options Trader Alert to be distributed to Members. The System will maintain one or more counting programs for each Member that count orders entered and contracts traded on Nasdaq GEMX or across both Nasdaq GEMX and Nasdaq ISE. Members can use multiple counting programs to separate risk protections for different groups established within the Member. The counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered; and (2) the total number of contracts traded. The minimum and maximum duration of the applicable time period will be established by the Exchange and announced via an Options Trader Alert.

* * * * *

(iii) The Market Wide Risk Protection will remain engaged until the Member manually notifies the Exchange to enable the acceptance of new orders. For Members that still have open orders on the book that have not been cancelled pursuant to Options 3, Section 15[(b)(1)(D)](ii) above, the System will continue to allow those Members to interact with existing orders entered before the protection was triggered, including sending cancel order messages and receiving trade executions for those orders.

* * * * *

(2) The following are order and quote risk protections on GEMX:

(A) **Acceptable Trade Range**.

* * * * *

(iii) If an order or quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order/quote or an updated NBB for buy orders/quotes or the NBO for sell orders/quotes (whichever is higher for a buy order/quote or lower for a sell order/quote) then becomes the reference price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted after the Posting Period, a new Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Threshold Price, unless a Member has requested that their quotes or orders be returned if the quotes/orders would post at the outer limit of the Acceptable Trade Range (in which case, the quotes/orders will be returned). This process will repeat until either (1) the order/quote is executed, cancelled, or posted at its limit price or (2) the order/quote has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

* * * * *

Section 22. Limitations on Order Entry

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(c) Limitation on Solicitation Orders. Electronic Access Members may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-Member broker-dealers to transact with such orders unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, (ii) the Member utilizes the Solicited Order Mechanism pursuant to Options 3, Section 11(d) and (e), (iii) the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11([d]b) and (c); (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Options 3, Section 13; (v) the Member utilizes Qualified Contingent Cross Orders pursuant to Options 3, Section 12(c) and (d); (vi) the Member utilizes a Customer Cross Order pursuant to Options 3, Sections 12(a) or (b).

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Supplementary Material to Options 3, Section 22

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.02 With respect to the non-displayed reserve portion of a [r]Reserve [o]Order, the exposure requirement of paragraphs (b) and (c) are satisfied if the displayable portion of the [r]Reserve [o]Order is displayed at its displayable price for one second.

* * * * *

Section 23. Data Feeds and Trade Information

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(b) The following order and execution information is available to Members:

* * * * *

(3) FIX DROP is a real-time order and execution update message that is sent to a Member after an order <u>has</u> 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.

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<u>**Options 3A Reserved**</u>

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