

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 72

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

File No. \* SR 2025 - \* 06

Amendment No. (req. for Amendments \*)

Filing by Nasdaq MRX, LLC

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

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

A proposal to 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 MRX, 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.



Date: 2025.02.06  
09:33:55 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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SR-MRX-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-MRX-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**

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SR-MRX-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**

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

1. Text of the Proposed Rule Change

(a) Nasdaq MRX, LLC (“MRX” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a 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) add a Cancel-Replacement Complex Order to Options 3, Section 14(b)(20); (4) 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 (5) make various other 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.

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

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

2. Procedures of the Self-Regulatory Organization

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

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

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

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

a. Purpose

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 14, Complex Orders; 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.

Today, a Stop Order is not elected by a trade that is reported late or out-of-sequence or by a Complex Order trading with another Complex Order. 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, or a trade that is outside the NBBO in the case of a complex order. 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 or a trade that is outside the NBBO in the case of a complex order, 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.<sup>3</sup> 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, or a trade that is outside the NBBO in the case of a Complex Order, 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.<sup>4</sup>

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

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<sup>3</sup> 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.

<sup>4</sup> 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).

order type is not currently on MRX.<sup>5</sup> Finally, the Exchange proposes to reserve Supplementary Material .03(d) to Options 3, Section 7. Other exchanges such as ISE have a protocol listed in (d). MRX proposes to reserve (d) because it does not have a similar protocol.

### **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

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<sup>5</sup> 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.

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 MRX)

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 11**

The Exchange proposes two technical amendments to Options 3, Section 11, Auction Mechanisms, at paragraph (g). First the Exchange proposes to correct a citation

to Options 11, Section 13(e); the correct citation is Options 3, Section 13(e). Second, the Exchange proposes to remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change.<sup>6</sup>

### **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.<sup>7</sup> 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 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 MRX 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

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<sup>6</sup> See Securities Exchange Act Release No. 95854 (September 21, 2022), 87 FR 58571 (September 27, 2022) (SR-MRX-22-10) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Amend Its Rules Relating to Single-Leg and Complex Orders in Connection With a Technology Migration).

<sup>7</sup> 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).

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<sup>8</sup> 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 MRX 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

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<sup>8</sup> 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.

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 MRX 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<sup>9</sup>/mnemonic<sup>10</sup> 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 14**

The Exchange proposes to define a Cancel-Replacement Complex Order within Options 3, Section 14(b)(20). Today, Options 3, Section 7(f) describes a single-leg Cancel-Replacement Order as follows:

Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-

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<sup>9</sup> 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).

<sup>10</sup> 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).

displayed) is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(a)(1)(A) and (a)(1)(B); and Options 3, Section 16(a)(1), (b) and (c)(1)) the existing order shall be cancelled and not replaced.

Today, the Exchange permits Members to cancel and replace a Complex Order within a single message, but does not list the order type in Options 3, Section 14.<sup>11</sup> The Exchange proposes to add the order type at Options 3, Section 14(b)(20) and provide,

Cancel-Replacement Complex Orders shall mean a single message for the immediate cancellation of a previously received Complex Order and the replacement of that Complex Order with a new Complex Order. If the previously placed Complex Order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. The replacement Complex Order will retain the priority of the cancelled Complex Order, if the order posts to the Complex Order Book, provided the price is not amended or size is not increased.

The proposed rule text is identical to the rule text for a single-leg order in Options 3, Section 7(f) except that: (1) Reserve Orders are not described, because there are no reserve complex orders; (2) single-leg risk protections do not apply to Complex Orders; and (3) protections for the legs of a Complex Order are described in Options 3, Section 7(f) which relates to the single-leg order book.

This order type offers Members the ability to cancel and replace a Complex Order in a single message as compared to entering two separate orders, which some Members may find more efficient. If the previously placed Complex Order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. Similar to single-leg orders, the replacement Complex Order will retain the priority of the cancelled Complex Order, if

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<sup>11</sup> See ISE Options 3, Section 7(f).

the order posts to the Complex Order Book,<sup>12</sup> provided the price is not amended or size is not increased. If the price is amended, or the size is increased, the replacement Complex Order will result in a loss in priority. Adding the order to the list of order types in Options 3, Section 14 makes clear that the order type is available for Complex Orders, in addition to single-leg orders. Also, the rule text makes clear the manner in which priority of the replacement Complex Order is retained in the System thereby memorializing the manner in which a Cancel-Replacement Complex Order is handled today by the System.

The Exchange proposes to amend certain rule citations in Options 3, Section 14, Complex Orders, to add the correct citation. Citations to Options 3, Section 22(d) should be to “b” and citations to Options 3, Section 22(e) should be to “c”. Options 3, Section 22(b) refers to Limitation on Principal Transactions.<sup>13</sup> Options 3, Section 22(c) refers to limitations on Solicitation Orders.<sup>14</sup>

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<sup>12</sup> The concept of priority is only relevant to resting orders on the Order Book or Complex Order Book as it relates to other resting orders when incoming orders trade with those resting orders. If an order is cancelled and then replaced in a way where that order becomes eligible to trade right away, the priority rules do not apply as that order immediately trades and ceases to exist unless volume remains, in which case the remainder does “post to the Complex Order Book” and priority becomes relevant.

<sup>13</sup> Electronic Access Members may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, (ii) the Electronic Access Member has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(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); or (vii) the Member utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14. Electronic Access Members may not execute as principal orders they represent as agent within the Solicitation Mechanism pursuant to Options 3, Section 11(d) and (e). See Options 3, Section 22(b).

<sup>14</sup> 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(e), (iii) the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(d); (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,

**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

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Section 12(c) and (d); (vi) the Member utilizes a Customer Cross Order pursuant to Options 3, Sections 12(a) or (b); or (vii) the Member utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14. See Options 3, Section 22(c).



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.<sup>15</sup>

### **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 both the single-leg and Complex Order 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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<sup>15</sup> 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 MRX.<sup>16</sup>

#### 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.

#### b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>18</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

### **Options 3, Section 7**

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<sup>16</sup> 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.

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

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 it would systemically prevent a Stop Order from being elected at the time of a late or out-of-sequence report or a trade that is outside the NBBO in the case of a complex order, rather than the execution price at the actual time of the execution. 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.<sup>19</sup> Reserving Supplementary Material .03(d) to Options 3, Section 7 to demonstrate that other Nasdaq affiliated exchanges have a protocol that MRX does not offer is a non-substantive amendment.

### **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

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<sup>19</sup> See Phlx Options 3, Section 7(b)(4). Phlx Stop Orders include Stop limit 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 11**

The Exchange's proposed amendments to Options 3, Section 11, Auction Mechanisms, at paragraph (g), to correct a citation to Options 11, Section 13(e) and to remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change<sup>20</sup> are non-substantive amendments.

### **Options 3, Section 13**

Amending MRX'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

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<sup>20</sup> See Securities Exchange Act Release No. 95854 (September 21, 2022), 87 FR 58571 (September 27, 2022) (SR-MRX-22-10) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Amend Its Rules Relating to Single-Leg and Complex Orders in Connection With a Technology Migration).

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 14**

The Exchange's proposal to define a Cancel-Replacement Complex Order within Options 3, Section 14(b)(20) is consistent with the Act because it provides Members the ability to cancel and replace a Complex Order in a single message as compared to entering two separate orders protects investors and the public interest as it allows Members to efficiently replace a prior Complex Order.

The proposed Cancel-Replacement Complex Order at Options 3, Section 14(b)(20) is identical to the rule text for a single-leg Cancel-Replacement Order at MRX Options 3, Section 7(f) except that: (1) Reserve Orders are not described, because there are no reserve complex orders; (2) single-leg risk protections do not apply to Complex Orders; and (3) protections for the legs of a Complex Order are described in Options 3,

Section 7(f) which relates to the single-leg order book.<sup>21</sup> The Exchange is memorializing the manner in which a Cancel-Replacement Order is handled today by the System. The Exchange's proposal to amend certain rule citations in Options 3, Section 14, Complex Orders are non-substantive amendments.

### **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

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<sup>21</sup> Today, the Exchange offers Members a single-leg Cancel-Replacement Order at Options 3, Section 7(f) and a Cancel-Replacement Complex Order that is currently not codified in the Rules.

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.<sup>22</sup>

### **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 both the single-leg and Complex Order 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 MRX Options 3A will provide Members who are also Member of ISE transparency as to the type of functionality offered on each exchange.

#### **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

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<sup>22</sup> See Phlx Options 3, Section 15(b)(1)(B).



Stop Order or Stop Limit Order would be elected by a trade that is reported late or out-of-sequence or by a Complex Order trading with another Complex Order.

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.<sup>23</sup>

### **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 11**

The Exchange's proposed amendments to Options 3, Section 11, Auction Mechanisms, at paragraph (g), to correct a citation to Options 11, Section 13(e) and to

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<sup>23</sup> See Phlx Options 3, Section 7(b)(4) which applies to Stop Orders and Stop limit orders.

remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change<sup>24</sup> are non-substantive amendments.

### **Options 3, Section 13**

The Exchange's proposal to amend MRX'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 MRX'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.

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<sup>24</sup> See Securities Exchange Act Release No. 95854 (September 21, 2022), 87 FR 58571 (September 27, 2022) (SR-MRX-22-10) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Amend Its Rules Relating to Single-Leg and Complex Orders in Connection With a Technology Migration).

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 14**

The Exchange's proposal to define a Cancel-Replacement Order within Options 3, Section 14(b)(20) does not impose an undue burden on inter-market competition because, today, MRX permits Members to cancel and replace a Complex Order within a single message allows for more efficiency for Members submitting such orders. Also, today, MRX permits single-leg order and complex order cancel-replacements.<sup>25</sup>

The Exchange's proposal to define a Cancel-Replacement Order within Options 3, Section 14(b)(20) does not impose an undue burden on intra-market competition because other Exchanges permit similar order types such as Phlx Options 3, Section 14(b)(v).

The Exchange's proposal to amend certain rule citations in Options 3, Section 14, Complex Orders are non-substantive amendments.

#### **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.

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<sup>25</sup> See MRX Options 3, Section 7(f).

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.<sup>26</sup>

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.<sup>27</sup>

### **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.

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

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<sup>26</sup> See Phlx Options 3, Section 7(b)(4).

<sup>27</sup> See BX Options 3, Section 15(b)(1)(A).

19(b)(3)(A)(iii)<sup>28</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>29</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The 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 a trade that is outside the NBBO in the case of a complex order, 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 a trade that is reported late or out-of-sequence or by a Complex Order trading with another Complex Order. Today, Phlx notes this behavior with respect to its Stop Order.<sup>30</sup> 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

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>29</sup> 17 CFR 240.19b-4(f)(6).

<sup>30</sup> See Phlx Options 3, Section 7(b)(4). Phlx's Stop Order includes a Stop limit order.

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 MRX'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 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 define a Cancel-Replacement Complex Order within Options 3, Section 14(b)(20) does not significantly affect the protection of investors or the public interest because this order type will permit a Member to cancel and replace a Complex Order in a single message as compared to entering two separate orders, which some Members may find more efficient. The proposed order type specifies, similar to single-leg orders at ISE Options 3, Section 7(d)(v) that a replacement Complex Order will retain the priority of the cancelled Complex Order provided the price is not amended or size is not increased. If the price is amended, or the size is increased, the replacement Complex Order will result in a loss in priority. 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.<sup>31</sup> The remainder of the changes are non-substantive.

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<sup>31</sup> 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 or by a Complex Order trading with another Complex Order. 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 proposed amendment to Options 3, Section 11, Auction Mechanisms, at paragraph (g), to remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change<sup>32</sup> is a non-substantive amendment. The Exchange's proposal to amend MRX'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

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<sup>32</sup> See supra note 6.



define a Cancel-Replacement Order within Options 3, Section 14(b)(20) does not impose a significant burden on competition because, today, MRX permits Members to cancel and replace a Complex Order within a single message allows for more efficiency for Member submitting such orders. Also, today, MRX permits single-leg order and complex order cancel-replacements.<sup>33</sup> 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)<sup>34</sup> requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

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<sup>33</sup> See MRX Options 3, Section 7(f).

<sup>34</sup> 17 CFR 240.19b-4(f)(6)(iii).

Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The 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).

The Exchange proposal to amend Legging Orders at Options 3, Section 7(k)(4) is identical to rule text in MRX Options 3, Section 7(k)(4).

The Exchange proposal to amend the MRX 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).

The Exchange proposal to amend Options 3, Section 14(b)(20) to add a Cancel-Replacement Complex Order is identical to the rule text for a single-leg Cancel-Replacement Order in ISE Options 3, Section 7(f) for all applicable rule text. The excluded rule text is irrelevant because: (1) there are no reserve complex orders; (2) single-leg risk protections do not apply to Complex Orders; and (3) protections for the legs from a Complex Orders are described in Options 3, Section 7(f) as they relate to the single-leg book.

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-MRX-2025-06)

January \_\_, 2025

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 6, 2025, Nasdaq MRX, LLC (“MRX” 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) add a Cancel-Replacement Complex Order to Options 3, Section 14(b)(20); (4) 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,

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

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

Section 15(a)(2)(A); and (5) make various other 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/mrx/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 14, Complex Orders; 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.

Today, a Stop Order is not elected by a trade that is reported late or out-of-sequence or by a Complex Order trading with another Complex Order. 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, or a trade that is outside the NBBO in the case of a complex order. 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 or a trade that is outside the NBBO in the case of a complex order, 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.<sup>3</sup> 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, or a trade that is outside the NBBO in the case of a Complex Order, 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.<sup>4</sup>

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<sup>3</sup> 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.

<sup>4</sup> 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).

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 MRX.<sup>5</sup> Finally, the Exchange proposes to reserve Supplementary Material .03(d) to Options 3, Section 7. Other exchanges such as ISE have a protocol listed in (d). MRX proposes to reserve (d) because it does not have a similar protocol.

### **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.

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<sup>5</sup> 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.

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 MRX)

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 11**

The Exchange proposes two technical amendments to Options 3, Section 11, Auction Mechanisms, at paragraph (g). First the Exchange proposes to correct a citation to Options 11, Section 13(e); the correct citation is Options 3, Section 13(e). Second, the Exchange proposes to remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change.<sup>6</sup>

### **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.<sup>7</sup> 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 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

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<sup>6</sup> See Securities Exchange Act Release No. 95854 (September 21, 2022), 87 FR 58571 (September 27, 2022) (SR-MRX-22-10) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Amend Its Rules Relating to Single-Leg and Complex Orders in Connection With a Technology Migration).

<sup>7</sup> 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).

market as the Agency Order, (i) equal to or better than the NBBO and (ii) better than any Limit Order or quote on the MRX 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<sup>8</sup> 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.

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<sup>8</sup> 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.

Additionally, the Exchange proposes to amend MRX 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 MRX 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<sup>9</sup>/mnemonic<sup>10</sup> 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 14**

The Exchange proposes to define a Cancel-Replacement Complex Order within Options 3, Section 14(b)(20). Today, Options 3, Section 7(f) describes a single-leg Cancel-Replacement Order as follows:

Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, the replacement order will

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<sup>9</sup> 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).

<sup>10</sup> 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).

retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(a)(1)(A) and (a)(1)(B); and Options 3, Section 16(a)(1), (b) and (c)(1)) the existing order shall be cancelled and not replaced.

Today, the Exchange permits Members to cancel and replace a Complex Order within a single message, but does not list the order type in Options 3, Section 14.<sup>11</sup> The Exchange proposes to add the order type at Options 3, Section 14(b)(20) and provide,

Cancel-Replacement Complex Orders shall mean a single message for the immediate cancellation of a previously received Complex Order and the replacement of that Complex Order with a new Complex Order. If the previously placed Complex Order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. The replacement Complex Order will retain the priority of the cancelled Complex Order, if the order posts to the Complex Order Book, provided the price is not amended or size is not increased.

The proposed rule text is identical to the rule text for a single-leg order in Options 3, Section 7(f) except that: (1) Reserve Orders are not described, because there are no reserve complex orders; (2) single-leg risk protections do not apply to Complex Orders; and (3) protections for the legs of a Complex Order are described in Options 3, Section 7(f) which relates to the single-leg order book.

This order type offers Members the ability to cancel and replace a Complex Order in a single message as compared to entering two separate orders, which some Members may find more efficient. If the previously placed Complex Order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. Similar to single-leg orders, the

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<sup>11</sup> See ISE Options 3, Section 7(f).

replacement Complex Order will retain the priority of the cancelled Complex Order, if the order posts to the Complex Order Book,<sup>12</sup> provided the price is not amended or size is not increased. If the price is amended, or the size is increased, the replacement Complex Order will result in a loss in priority. Adding the order to the list of order types in Options 3, Section 14 makes clear that the order type is available for Complex Orders, in addition to single-leg orders. Also, the rule text makes clear the manner in which priority of the replacement Complex Order is retained in the System thereby memorializing the manner in which a Cancel-Replacement Complex Order is handled today by the System.

The Exchange proposes to amend certain rule citations in Options 3, Section 14, Complex Orders, to add the correct citation. Citations to Options 3, Section 22(d) should be to “b” and citations to Options 3, Section 22(e) should be to “c”. Options 3, Section 22(b) refers to Limitation on Principal Transactions.<sup>13</sup> Options 3, Section 22(c) refers to limitations on Solicitation Orders.<sup>14</sup>

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<sup>12</sup> The concept of priority is only relevant to resting orders on the Order Book or Complex Order Book as it relates to other resting orders when incoming orders trade with those resting orders. If an order is cancelled and then replaced in a way where that order becomes eligible to trade right away, the priority rules do not apply as that order immediately trades and ceases to exist unless volume remains, in which case the remainder does “post to the Complex Order Book” and priority becomes relevant.

<sup>13</sup> Electronic Access Members may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, (ii) the Electronic Access Member has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(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); or (vii) the Member utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14. Electronic Access Members may not execute as principal orders they represent as agent within the Solicitation Mechanism pursuant to Options 3, Section 11(d) and (e). See Options 3, Section 22(b).

<sup>14</sup> 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(e), (iii)



### 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

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the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(d); (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); or (vii) the Member utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14. See Options 3, Section 22(c).

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.<sup>15</sup>

### **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 both the single-leg and Complex Order SOM and Facilitation Mechanism and correct an incorrect cite. The Exchange proposes to capitalize references to Reserve Order, which is a defined order type.

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<sup>15</sup> See Phlx Options 3, Section 15(b)(1)(B).

### **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 MRX.<sup>16</sup>

#### 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,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>18</sup> in

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<sup>16</sup> 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.

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

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 it would systemically prevent a Stop Order from being elected at the time of a late or out-of-sequence report or a trade that is outside the NBBO in the case of a complex order, rather than the execution price at the actual time of the execution. 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.<sup>19</sup> Reserving Supplementary Material .03(d) to Options 3, Section 7 to demonstrate that other Nasdaq affiliated exchanges have a protocol that MRX does not offer is a non-substantive amendment.

### **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,

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<sup>19</sup> See Phlx Options 3, Section 7(b)(4). Phlx Stop Orders include Stop limit orders.

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 11**

The Exchange's proposed amendments to Options 3, Section 11, Auction Mechanisms, at paragraph (g), to correct a citation to Options 11, Section 13(e) and to remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change<sup>20</sup> are non-substantive amendments.

### **Options 3, Section 13**

Amending MRX'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

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<sup>20</sup> See Securities Exchange Act Release No. 95854 (September 21, 2022), 87 FR 58571 (September 27, 2022) (SR-MRX-22-10) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Amend Its Rules Relating to Single-Leg and Complex Orders in Connection With a Technology Migration).

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 14**

The Exchange's proposal to define a Cancel-Replacement Complex Order within Options 3, Section 14(b)(20) is consistent with the Act because it provides Members the ability to cancel and replace a Complex Order in a single message as compared to entering two separate orders protects investors and the public interest as it allows Members to efficiently replace a prior Complex Order.

The proposed Cancel-Replacement Complex Order at Options 3, Section 14(b)(20) is identical to the rule text for a single-leg Cancel-Replacement Order at MRX Options 3, Section 7(f) except that: (1) Reserve Orders are not described, because there are no reserve complex orders; (2) single-leg risk protections do not apply to Complex Orders; and (3) protections for the legs of a Complex Order are described in Options 3, Section 7(f) which relates to the single-leg order book.<sup>21</sup> The Exchange is memorializing the manner in which a Cancel-Replacement Order is handled today by the System. The Exchange's proposal to amend certain rule citations in Options 3, Section 14, Complex Orders are non-substantive amendments.

### **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

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<sup>21</sup> Today, the Exchange offers Members a single-leg Cancel-Replacement Order at Options 3, Section 7(f) and a Cancel-Replacement Complex Order that is currently not codified in the Rules.



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.<sup>22</sup>

### **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 both the single-leg and Complex Order 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 MRX 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.

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<sup>22</sup> See Phlx Options 3, Section 15(b)(1)(B).

**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 or by a Complex Order trading with another Complex Order.

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.<sup>23</sup>

**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.

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<sup>23</sup> See Phlx Options 3, Section 7(b)(4) which applies to Stop Orders and Stop limit orders.

**Options 3, Section 11**

The Exchange's proposed amendments to Options 3, Section 11, Auction Mechanisms, at paragraph (g), to correct a citation to Options 11, Section 13(e) and to remove a citation to Options 3, Section 13(e)(4)(vi), which does not exist in the rules as it was removed in a 2022 rule change<sup>24</sup> are non-substantive amendments.

**Options 3, Section 13**

The Exchange's proposal to amend MRX'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 MRX'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

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<sup>24</sup> See Securities Exchange Act Release No. 95854 (September 21, 2022), 87 FR 58571 (September 27, 2022) (SR-MRX-22-10) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Amend Its Rules Relating to Single-Leg and Complex Orders in Connection With a Technology Migration).

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 14**

The Exchange's proposal to define a Cancel-Replacement Order within Options 3, Section 14(b)(20) does not impose an undue burden on inter-market competition because, today, MRX permits Members to cancel and replace a Complex Order within a single message allows for more efficiency for Members submitting such orders. Also, today, MRX permits single-leg order and complex order cancel-replacements.<sup>25</sup>

The Exchange's proposal to define a Cancel-Replacement Order within Options 3, Section 14(b)(20) does not impose an undue burden on intra-market competition because other Exchanges permit similar order types such as Phlx Options 3, Section 14(b)(v).

The Exchange's proposal to amend certain rule citations in Options 3, Section 14, Complex Orders are non-substantive amendments.

#### **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

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<sup>25</sup> See MRX Options 3, Section 7(f).

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.<sup>26</sup>

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.<sup>27</sup>

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed,

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<sup>26</sup> See Phlx Options 3, Section 7(b)(4).

<sup>27</sup> See BX Options 3, Section 15(b)(1)(A).

or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>28</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>29</sup>

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

#### IV. Solicitation of Comments

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

##### 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](mailto:rule-comments@sec.gov). Please include file number SR-MRX-2025-06 on the subject line.

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>29</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-MRX-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-MRX-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.<sup>30</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>30</sup> 17 CFR 200.30-3(a)(12).



**EXHIBIT 5**

*New text is underlined; deleted text is in brackets.*

**Nasdaq MRX, LLC Rules**

\* \* \* \* \*

**Options Rules**

\* \* \* \* \*

**Options 3 Options Trading Rules**

\* \* \* \* \*

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

\* \* \* \* \*

(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. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order.

(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. A Stop Limit Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order.

\* \* \* \* \*

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

(z) Reserved.

\* \* \* \* \*

**Supplementary Material to Options 3, Section 7**

\* \* \* \* \*

.03 The Exchange offers Members the following protocols for entering orders and quotes respectively:

\* \* \* \* \*

(d) Reserved.

\* \* \* \* \*

## Section 11. Auction Mechanisms

\* \* \* \* \*

(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.

\* \* \* \* \*

(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 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.

\* \* \* \* \*

(g) **Concurrent Complex Order and single leg auctions.** An auction in the Block Order Mechanism at Options 3, Section 11(a), Facilitation Mechanism at Options 3, Section 11(b), Solicited Order Mechanism at Options 3, Section 11(d), or Price Improvement Mechanism at

Options 3, Section 13(d), respectively, for an option series may occur concurrently with a Complex Order Exposure Auction at Supplementary Material .01 to Options 3, Section 14, Complex Facilitation Auction at Options 3, Section 11(c), Complex Solicited Order Auction at Options 3, Section 11(e), or Complex Price Improvement Mechanism auction at Options [11]3, Section 13(e), respectively, for a Complex Order that includes that series. To the extent that there are concurrent Complex Order and single leg auctions involving a specific option series, each auction will be processed sequentially based on the time the auction commenced. At the time an auction concludes, including when it concludes early, the auction will be processed pursuant to Options 3, Section 11(a), (b), (d), or Section 13(a), as applicable, for the single option, or pursuant to Supplementary Material .01 to Options 3, Section 14, Options 3, Section 11(c), 11(e), Options 3, Section 13(e), as applicable, for the Complex Order[, except as provided for at Options 3, Section 13(e)(4)(vi)].

\* \* \* \* \*

### Section 13. Price Improvement Mechanism for Crossing Transactions

\* \* \* \* \*

(b) Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the “Agency Order”) and a counter-side order for the full size of the Agency Order (the “Counter-Side Order”). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

(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 [MRX]Limit O[order]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 [MRX]Limit Order 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 14. Complex Orders

\* \* \* \* \*

(b) *Types of Complex Orders.* Unless otherwise specified, the definitions used below have the same meaning contained in Options 3, Section 7. The Exchange may determine to make certain order types and/or times-in-force available on a class or System basis. Complex Orders may be entered using the following orders or designations:

\* \* \* \* \*

(20) Cancel-Replacement Complex Order. Cancel-Replacement Complex Orders shall mean a single message for the immediate cancellation of a previously received Complex Order and the replacement of that Complex Order with a new Complex Order. If the previously placed Complex Order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. The replacement Complex Order will retain the priority of the cancelled Complex Order, if the order posts to the Complex Order Book, provided the price is not amended or size is not increased.

\* \* \* \* \*

(c) *Applicability of Exchange Rules.* Except as otherwise provided in this Rule, complex strategies shall be subject to all other Exchange Rules that pertain to orders and quotes generally.

\* \* \* \* \*

(3) Internalization. Complex Orders represented as agent may be executed (i) as principal as provided in Options 3, Section 22([d]b), or (ii) against orders solicited from Members and non-Member broker-dealers as provided in Options 3, Section 22([e]c). The exposure requirements of Options 3, Section 22([d]b) or ([e]c) must be met on the Complex Order Book unless the order is executed in one of the mechanisms described in Options 3, Sections 11, 12 and 13.

\* \* \* \* \*

### **Supplementary Material to Options 3, Section 14**

.01 Complex Order Exposure. If designated by a Member for exposure, eligible Complex Orders are exposed upon entry for a period of up to one (1) second [pursuant to subparagraph (d)(1)] as follows:

\* \* \* \* \*

### **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 MRX:

(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 MRX. 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 in the regular order book; (2) the total number of Complex Option Orders entered in the complex order book; (3) the total number of Stock-Option and Stock-Complex Orders entered into the complex order book; (4) the total number of contracts traded in regular orders; (5) the total number of contracts traded in Complex Options Orders; and (6) the total number of contracts traded in Stock-Option and Stock-Complex Orders entered into the complex order book. 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 subparagraph [(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 MRX:

**(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**

\* \* \* \* \*

(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); or (vii) the Member utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14.

\* \* \* \* \*

## **Supplementary Material to Options 3, Section 22**

\* \* \* \* \*

.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**

\* \* \* \* \*

(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 has 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.

\* \* \* \* \*

**Options 3A Reserved**

\* \* \* \* \*