


Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 25		SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No. * SR 2025 - * 43 Amendment No. (req. for Amendments *)	
Filing by Nasdaq ISE, 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"/>	
Pilot <input type="checkbox"/>		Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	
		Rule			
		<input type="checkbox"/> 19b-4(f)(1)		<input type="checkbox"/> 19b-4(f)(4)	
		<input type="checkbox"/> 19b-4(f)(2)		<input type="checkbox"/> 19b-4(f)(5)	
		<input type="checkbox"/> 19b-4(f)(3)		<input checked="" type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>		
Exhibit 2 Sent As Paper Document <input type="checkbox"/>			Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
Description Provide a brief description of the action (limit 250 characters, required when Initial is checked *). Adopt a Best Execution and Interpositioning					
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 * [Redacted] Last Name * [Redacted] Title * [Redacted] E-mail * [Redacted] Telephone * [Redacted] Fax [Redacted]					
Signature Pursuant to the requirements of the Securities Exchange of 1934, Nasdaq ISE, LLC has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. Date 12/22/2025 (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. <div> Date: 2025.12.22 11:06:31 -05'00'</div>					

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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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-ISE-2025-43 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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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.

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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-ISE-2025-43 Exhibit 5.docx.doc		

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) Nasdaq ISE, LLC (“ISE” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to adopt a Best Execution and Interpositioning rule at proposed Options 9, Section 26.

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

(b) The proposed rule change amends Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”) Options 9, Section 26. GEMX and MRX incorporate ISE Options 9, Section 26.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

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



¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

a. Purpose

The Exchange proposes to adopt a Best Execution and Interpositioning rule at proposed Options 9, Section 26 that is identical to Nasdaq Phlx LLC (“Phlx”) Best Execution and Interpositioning rule at General 9, Section 11.

Background

A broker-dealer has a legal duty to seek best execution of customer orders. The duty of best execution predates the Federal securities laws and is derived from an implied representation that a broker-dealer makes to its customers. The duty is established from “common law agency obligations of undivided loyalty and reasonable care that an agent owes to [its] principal.”³ This obligation requires that a “broker-dealer seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances.”⁴ The duty of best execution is addressed at FINRA Rule 5310.

The Commission has previously stated that the duty of best execution requires a broker-dealer to execute customers' trades at the most favorable terms reasonably available under the circumstances, i.e., at the best reasonably available price.⁵ The Commission has described a non-exhaustive list of factors that may be relevant to broker-dealers’ best execution analysis. These factors include the size of the order, speed of execution, clearing costs, the trading characteristics of the security involved, the availability of accurate information affecting choices

³ See, e.g., *Newton v. Merrill, Lynch, Pierce, Fenner & Smith, Inc.*, 135 F.3d 266, 270 (3d Cir.), cert. denied, 525 U.S. 811 (1998).

⁴ See Securities Exchange Act Release No. 37619A (Sept. 6, 1996), 61 FR 48290 (Sept. 12, 1996) (“Order Execution Obligations Adopting Release”).

⁵ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37538 (June 29, 2005) (“Regulation NMS Adopting Release”).

as to the most favorable market center for execution and the availability of technological aids to process such information, and the cost and difficulty associated with achieving an execution in a particular market center.⁶

In addition, the Commission has expressed concerns regarding interpositioning and the duty of best execution. Interpositioning can occur when a broker-dealer places a third party between itself and the best market for executing a customer trade in a manner that results in a customer not receiving the best available market price.⁷ Interpositioning can violate the broker-dealer's duty of best execution when it results in unnecessary transaction costs at the expense of the customer.⁸

Proposal

At this time, the Exchange proposes to codify the broker dealer's duty of best execution at Options 9, Section 26 and title the new rule, "Best Execution and Interpositioning."

⁶ See Securities Exchange Act Release No. 96496 (December 14, 2022), 88 FR 5440, 5474 (January 27, 2023) (File No. S7-32-22) (Regulation Best Execution).

⁷ See *Edward Sinclair, et al.*, Securities Exchange Act Release No. 9115, 1971 WL 120487 (Mar. 24, 1971) (Comm'n op.), aff'd, 444 F.2d 399 (2d Cir. 1971) (order clerk in OTC department of broker-dealer interposed a broker-dealer between his firm and best available market price in return for split of profits with the interposed broker); *H.C. Keister & Co., et al.*, Securities Exchange Act Release No. 7988, 1966 WL 84120 (Nov. 1, 1966) (Comm'n op.) (in exchange for payments, trader for a large broker-dealer interpositioned a small broker-dealer between its customers' orders and the best available market prices); *Synovus Securities, Inc.*, Securities Exchange Act Release No. 34313, 1994 WL 323096 (July 5, 1994) (settled order) (broker-dealer and its president placed customer orders with person who was able to promptly sell the bonds to or buy the bonds from other brokers at a profit and customers did not get the best market price). See also *SEC v. Ridenour*, 913 F.2d 515 (8th Cir. 1990) (a bond salesman violated the antifraud provisions based on his secret interpositioning of his personal trading account between his customers' securities transactions and the fair market price of the trades).

⁸ See *Thomson & McKinnon*, Securities Exchange Act Release No. 8310, 1968 WL 87637 (May 8, 1968) (Comm'n op.) (a National Association of Securities Dealers ("NASD") member firm interposed broker-dealers between itself and the best available market, and the added transaction cost was borne by its customers; the Commission found that, "[i]n view of the obligation of a broker to obtain the most favorable price for his customer, where he interposes another broker-dealer between himself and a third broker-dealer, he *prima facie* has not met that obligation and he has the burden of showing that the customer's total cost or proceeds of the transaction is the most favorable obtainable under the circumstances").

A broker-dealer that engages in a transaction for or with a customer or a customer of another broker-dealer, a Member and persons associated with a Member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Utilizing the Commission's non-exhaustive list of factors, FINRA Rule 5310 and identical to Phlx General 9, Section 11, the following are among the factors that will be considered in determining whether a Member has used "reasonable diligence" are:

- the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- the size and type of transaction;
- the number of markets checked;
- accessibility of the quotation; and
- the terms and conditions of the order which result in the transaction, as communicated to the Member and persons associated with the Member.⁹

To prevent a broker-dealer from avoiding its best execution obligation via a third-party, the Exchange proposes to state that in any transaction for or with a customer or a customer of another broker-dealer, no Member or person associated with a Member shall interject a third party between the Member and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.¹⁰

Next, the Exchange notes that it is the Member's obligation to demonstrate best execution. To this end, the Exchange proposes to state that when a Member cannot execute directly with a market maker but must employ a broker's broker or some other means in order to ensure an execution advantageous to the customer, the burden of showing the acceptable

⁹ See proposed Options 9, Section 26(a)(1). This rule text is identical to Phlx General 9, Section 11(a)(1).

¹⁰ See proposed Options 9, Section 26(a)(2). This rule text is identical to Phlx General 9, Section 11(a)(2).

circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is “crossed” with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.¹¹

The Exchange further notes that a Member cannot use staffing or a third party as a reason to not execute a transaction in accordance with its best execution obligation. The Exchange proposes to state that failure to maintain or adequately staff a department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a Member of its obligations.¹² The proposed rule does however advise that certain executions where orders are channeled and there are established correspondent relationships or a give-up relationship to meet the requirements of best obligation if the executions are confirmed directly to the Member acting as agent for the customer. The Exchange proposes to state that the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the Member acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.¹³

The proposed rule also holds Members responsible where they are a party to the transaction chain where the best execution obligation was not met. The Exchange proposes to

¹¹ See proposed Options 9, Section 26(b). This rule text is identical to Phlx General 9, Section 11(b).

¹² See proposed Options 9, Section 26(c). This rule text is identical to Phlx General 9, Section 11(c).

¹³ See id.

state that a Member through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating Member has not fulfilled his obligations under this Rule, will also be deemed to have violated Options 9, Section 26.¹⁴

A Member is subject the duty of best execution where it acts as agent for the account of his customer or executes a retail transaction as principal and the transaction is contemporaneously offset.¹⁵

Finally, the duty of best execution applies when customer orders are routed to and from a broker/dealer to another broker/dealer for execution.¹⁶ This provision is intended to addresses certain interpretive questions concerning the applicability of the best execution rule.

The Exchange proposes to note, identical to Phlx General 9, Section 11, that for the purposes of this Rule, the term “market” or “markets” is to be construed broadly, and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. The rule text notes that this expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

Finally, identical to Phlx General 9, Section 11, the Exchange provides that a Member’s duty to provide best execution in any transaction “for or with a customer of another

¹⁴ See proposed Options 9, Section 26(d). This rule text is identical to Phlx General 9, Section 11(d).

¹⁵ See proposed Options 9, Section 26(e). This rule text is identical to Phlx General 9, Section 11(e).

¹⁶ See proposed Options 9, Section 26(f). This rule text is identical to Phlx General 9, Section 11(f).

broker/dealer” does not apply in instances when another broker/dealer is simply executing a customer order against the Member’s quote. The duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. Identical to Phlx, this rule text is intended to draw a distinction between those situations in which the Member is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the Member’s quote, as opposed to those circumstances in which the Member is accepting order flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

Members are subject to this rule today by virtue of having public customers. Brokers with public customers are required to be members of FINRA; accordingly, adoption of these rules by ISE could be seen as unnecessary. However, ISE believes that the requirements of these rules are sufficiently important that they should be reinforced through explicit inclusion in its rules.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁸ 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, by adopting a best execution and interpositioning rule at Options 9, Section 26 to inform Members of their obligations with respect to their customers.

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

ISE's proposed Options 9, Section 26 seeks to make clear that a broker-dealer must seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances, thereby protecting investors and general public. The proposal promotes just and equitable principles of trade by providing examples of reasonable diligence and identifying use of channeling and third parties that are and are not violative of the rule. ISE's interpretation of the term "market" or "markets" is intended to provide Members with context as to the scope of venues that must be considered in the furtherance of their best execution obligations. Finally, the Exchange notes that the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. Finally, the Exchange intends to harmonize ISE's rule with Phlx General 9, Section 11 which is identical to the proposed rule.

Members are subject to these rules today by virtue of having public customers. Brokers with public customers are required to be members of FINRA; accordingly, adoption of these rules by ISE could be seen as unnecessary. However, ISE believes that the requirements of these rules are sufficiently important that they should be reinforced through explicit inclusion in its rules.

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

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

The Exchange's proposal to adopt a new Options 9, Section 26, Best Execution and Interpositioning, does not impose an undue burden on competition as all Members that conduct business with the public would be subject to the proposed rule.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)¹⁹ of the Act and Rule 19b-4(f)(6) thereunder²⁰ 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 as Members are subject to the best execution and interpositioning rule today by virtue of having public customers. Today, a broker-dealer must seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances, thereby protecting investors and general public. The Exchange intends to harmonize ISE's rule with Phlx General 9, Section 11 which is identical to the proposed rule.

The proposal does not impose any significant burden on competition as all Members with public customers must be members of FINRA and comply with FINRA Rule 5310.

¹⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁰ 17 CFR 240.19b-4(f)(6).

Furthermore, Rule 19b-4(f)(6)(iii)²¹ requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

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

Proposed ISE Options 9, Section 26 is identical to Phlx General 9, Section 11.

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.

²¹ 17 CFR 240.19b-4(f)(6)(iii).

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION****[Release No. 34 ; File No. SR-ISE-2025-43]****Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt a Best Execution and Interpositioning Rule**

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 22, 2025, Nasdaq ISE, LLC (“ISE” 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 adopt a Best Execution and Interpositioning rule at proposed Options 9, Section 26.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/ise/rulefilings>, and at the principal office of the Exchange.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

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

1. Purpose

The Exchange proposes to adopt a Best Execution and Interpositioning rule at proposed Options 9, Section 26 that is identical to Nasdaq Phlx LLC ("Phlx") Best Execution and Interpositioning rule at General 9, Section 11.

Background

A broker-dealer has a legal duty to seek best execution of customer orders. The duty of best execution predates the Federal securities laws and is derived from an implied representation that a broker-dealer makes to its customers. The duty is established from "common law agency obligations of undivided loyalty and reasonable care that an agent owes to [its] principal."³ This obligation requires that a "broker-dealer seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances."⁴ The duty of best execution is addressed at FINRA Rule 5310.

³ See, e.g., *Newton v. Merrill, Lynch, Pierce, Fenner & Smith, Inc.*, 135 F.3d 266, 270 (3d Cir.), cert. denied, 525 U.S. 811 (1998).

⁴ See Securities Exchange Act Release No. 37619A (Sept. 6, 1996), 61 FR 48290 (Sept. 12, 1996) ("Order Execution Obligations Adopting Release").

The Commission has previously stated that the duty of best execution requires a broker-dealer to execute customers' trades at the most favorable terms reasonably available under the circumstances, i.e., at the best reasonably available price.⁵ The Commission has described a non-exhaustive list of factors that may be relevant to broker-dealers' best execution analysis. These factors include the size of the order, speed of execution, clearing costs, the trading characteristics of the security involved, the availability of accurate information affecting choices as to the most favorable market center for execution and the availability of technological aids to process such information, and the cost and difficulty associated with achieving an execution in a particular market center.⁶

In addition, the Commission has expressed concerns regarding interpositioning and the duty of best execution. Interpositioning can occur when a broker-dealer places a third party between itself and the best market for executing a customer trade in a manner that results in a customer not receiving the best available market price.⁷ Interpositioning can violate the broker-

⁵ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37538 (June 29, 2005) ("Regulation NMS Adopting Release").

⁶ See Securities Exchange Act Release No. 96496 (December 14, 2022), 88 FR 5440, 5474 (January 27, 2023) (File No. S7-32-22) (Regulation Best Execution).

⁷ See *Edward Sinclair, et al.*, Securities Exchange Act Release No. 9115, 1971 WL 120487 (Mar. 24, 1971) (Comm'n op.), aff'd, 444 F.2d 399 (2d Cir. 1971) (order clerk in OTC department of broker-dealer interposed a broker-dealer between his firm and best available market price in return for split of profits with the interposed broker); *H.C. Keister & Co., et al.*, Securities Exchange Act Release No. 7988, 1966 WL 84120 (Nov. 1, 1966) (Comm'n op.) (in exchange for payments, trader for a large broker-dealer interpositioned a small broker-dealer between its customers' orders and the best available market prices); *Synovus Securities, Inc.*, Securities Exchange Act Release No. 34313, 1994 WL 323096 (July 5, 1994) (settled order) (broker-dealer and its president placed customer orders with person who was able to promptly sell the bonds to or buy the bonds from other brokers at a profit and customers did not get the best market price). See also *SEC v. Ridenour*, 913 F.2d 515 (8th Cir. 1990) (a bond salesman violated the antifraud provisions based on his secret interpositioning of his personal trading account between his customers' securities transactions and the fair market price of the trades).

dealer's duty of best execution when it results in unnecessary transaction costs at the expense of the customer.⁸

Proposal

At this time, the Exchange proposes to codify the broker dealer's duty of best execution at Options 9, Section 26 and title the new rule, "Best Execution and Interpositioning."

A broker-dealer that engages in a transaction for or with a customer or a customer of another broker-dealer, a Member and persons associated with a Member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Utilizing the Commission's non-exhaustive list of factors, FINRA Rule 5310 and identical to Phlx General 9, Section 11, the following are among the factors that will be considered in determining whether a Member has used "reasonable diligence" are:

- the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- the size and type of transaction;
- the number of markets checked;
- accessibility of the quotation; and
- the terms and conditions of the order which result in the transaction, as communicated to the Member and persons associated with the Member.⁹

⁸ See *Thomson & McKinnon*, Securities Exchange Act Release No. 8310, 1968 WL 87637 (May 8, 1968) (Comm'n op.) (a National Association of Securities Dealers ("NASD") member firm interposed broker-dealers between itself and the best available market, and the added transaction cost was borne by its customers; the Commission found that, "[i]n view of the obligation of a broker to obtain the most favorable price for his customer, where he interposes another broker-dealer between himself and a third broker-dealer, he *prima facie* has not met that obligation and he has the burden of showing that the customer's total cost or proceeds of the transaction is the most favorable obtainable under the circumstances").

⁹ See proposed Options 9, Section 26(a)(1). This rule text is identical to Phlx General 9, Section 11(a)(1).

To prevent a broker-dealer from avoiding its best execution obligation via a third-party, the Exchange proposes to state that in any transaction for or with a customer or a customer of another broker-dealer, no Member or person associated with a Member shall interject a third party between the Member and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.¹⁰

Next, the Exchange notes that it is the Member's obligation to demonstrate best execution. To this end, the Exchange proposes to state that when a Member cannot execute directly with a market maker but must employ a broker's broker or some other means in order to ensure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.¹¹

The Exchange further notes that a Member cannot use staffing or a third party as a reason to not execute a transaction in accordance with its best execution obligation. The Exchange proposes to state that failure to maintain or adequately staff a department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a Member of its obligations.¹² The proposed rule does however advise that certain executions where orders are channeled and there

¹⁰ See proposed Options 9, Section 26(a)(2). This rule text is identical to Phlx General 9, Section 11(a)(2).

¹¹ See proposed Options 9, Section 26(b). This rule text is identical to Phlx General 9, Section 11(b).

¹² See proposed Options 9, Section 26(c). This rule text is identical to Phlx General 9, Section 11(c).

are established correspondent relationships or a give-up relationship to meet the requirements of best obligation if the executions are confirmed directly to the Member acting as agent for the customer. The Exchange proposes to state that the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the Member acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.¹³

The proposed rule also holds Members responsible where they are a party to the transaction chain where the best execution obligation was not met. The Exchange proposes to state that a Member through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating Member has not fulfilled his obligations under this Rule, will also be deemed to have violated Options 9, Section 26.¹⁴

A Member is subject the duty of best execution where it acts as agent for the account of his customer or executes a retail transaction as principal and the transaction is contemporaneously offset.¹⁵

Finally, the duty of best execution applies when customer orders are routed to and from a broker/dealer to another broker/dealer for execution.¹⁶ This provision is intended to addresses certain interpretive questions concerning the applicability of the best execution rule.

The Exchange proposes to note, identical to Phlx General 9, Section 11, that for the purposes of this Rule, the term "market" or "markets" is to be construed broadly, and it

¹³ See id.

¹⁴ See proposed Options 9, Section 26(d). This rule text is identical to Phlx General 9, Section 11(d).

¹⁵ See proposed Options 9, Section 26(e). This rule text is identical to Phlx General 9, Section 11(e).

¹⁶ See proposed Options 9, Section 26(f). This rule text is identical to Phlx General 9, Section 11(f).

encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. The rule text notes that this expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

Finally, identical to Phlx General 9, Section 11, the Exchange provides that a Member's duty to provide best execution in any transaction "for or with a customer of another broker/dealer" does not apply in instances when another broker/dealer is simply executing a customer order against the Member's quote. The duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. Identical to Phlx, this rule text is intended to draw a distinction between those situations in which the Member is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the Member's quote, as opposed to those circumstances in which the Member is accepting order flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

Members are subject to this rule today by virtue of having public customers. Brokers with public customers are required to be members of FINRA; accordingly, adoption of these rules by ISE could be seen as unnecessary. However, ISE believes that the requirements of these rules are sufficiently important that they should be reinforced through explicit inclusion in its rules.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁸ 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, by adopting a best execution and interpositioning rule at Options 9, Section 26 to inform Members of their obligations with respect to their customers.

ISE's proposed Options 9, Section 26 seeks to make clear that a broker-dealer must seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances, thereby protecting investors and general public. The proposal promotes just and equitable principles of trade by providing examples of reasonable diligence and identifying use of channeling and third parties that are and are not violative of the rule. ISE's interpretation of the term "market" or "markets" is intended to provide Members with context as to the scope of venues that must be considered in the furtherance of their best execution obligations. Finally, the Exchange notes that the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. Finally, the Exchange intends to harmonize ISE's rule with Phlx General 9, Section 11 which is identical to the proposed rule.

Members are subject to these rules today by virtue of having public customers. Brokers with public customers are required to be members of FINRA; accordingly, adoption of these rules by ISE could be seen as unnecessary. However, ISE believes that the requirements of these

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

rules are sufficiently important that they should be reinforced through explicit inclusion in its rules.

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

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

The Exchange's proposal to adopt a new Options 9, Section 26, Best Execution and Interpositioning, does not impose an undue burden on competition as all Members that conduct business with the public would be subject to the proposed rule.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁹ and subparagraph (f)(6) of Rule 19b-4 thereunder.²⁰

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

¹⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

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

otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-ISE-2025-43 on the subject line.

Paper Comments:

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

All submissions should refer to file number SR-ISE-2025-43. 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 filing 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-ISE-2025-43 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

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

Sherry R. Haywood,

Assistant Secretary.

²¹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq ISE, LLC Rules

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Options Rules

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Options 9 Business Conduct

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Section 26. Best Execution and Interpositioning

(a) (1) In any transaction for or with a customer or a customer of another broker-dealer, a Member and persons associated with a Member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a Member has used "reasonable diligence" are:

(A) the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;

(B) the size and type of transaction;

(C) the number of markets checked;

(D) accessibility of the quotation; and

(E) the terms and conditions of the order which result in the transaction, as communicated to the Member and persons associated with the Member.

(2) In any transaction for or with a customer or a customer of another broker-dealer, no Member or person associated with a Member shall interject a third party between the Member and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.

(b) When a Member cannot execute directly with a market maker but must employ a broker's broker or some other means in order to ensure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

(c) Failure to maintain or adequately staff a department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a Member of its obligations.

However, the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the Member acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.

(d) A Member through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating Member has not fulfilled his obligations under this Rule, will also be deemed to have violated this Rule.

(e) The obligations described in paragraphs (a) through (d) above exist not only where the Member acts as agent for the account of his customer but also where retail transactions are executed as principal and contemporaneously offset.

(f) Paragraph (a) requires, among other things, that a Member or person associated with a Member comply with paragraph (a) when customer orders are routed to it from another broker/dealer for execution. This rule text addresses certain interpretive questions concerning the applicability of the best execution rule.

For the purposes of this Rule, the term “market” or “markets” is to be construed broadly, and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

A Member’s duty to provide best execution in any transaction “for or with a customer of another broker/dealer” does not apply in instances when another broker/dealer is simply executing a customer order against the Member’s quote. Stated in another manner, the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. This clarification is intended to draw a distinction between those situations in which the Member is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the Member’s quote, as opposed to those circumstances in which the Member is accepting order flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

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