

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="31"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2020"/> - * <input type="text" value="18"/> Amendment No. (req. for Amendments *) <input type="text"/>
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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"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**

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

**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 \*  Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date  By

(Name \*)

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF 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 \***

Add Remove View

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 Advance 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, security-based swap submission, or advance notice 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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Exhibit Sent As Paper Document

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 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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 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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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 proposal to amend its Pricing Schedule at Options 7 in connection with the pricing for orders entered into the Exchange’s Price Improvement Mechanism (“PIM”).<sup>3</sup>

The Exchange originally filed the proposed pricing change on November 2, 2020 (SR-MRX-2020-20). On November 13, 2020, the Exchange withdrew that filing and submitted this filing.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the “Board”) on November 5, 2020. 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.

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

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

<sup>3</sup> PIM is a process by which an Electronic Access Member (“EAM”) can provide price improvement opportunities for a transaction wherein the EAM seeks to facilitate an order it represents as agent, and/or a transaction wherein the EAM solicited interest to execute against an order it represents as agent. See Options 3, Section 13.

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

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

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

a. Purpose

The purpose of the proposed rule change is to amend the Exchange's Pricing Schedule at Options 7 in connection with the pricing for orders entered into the Exchange's PIM.

Today for both regular and complex PIM orders, the Exchange pays a PIM break-up rebate to an originating Priority Customer<sup>4</sup> PIM order that executes with a response (order or quote), other than the PIM contra-side order, of \$0.40 per contract in Penny Symbols and \$1.00 per contract in Non-Penny Symbols.<sup>5</sup> The Exchange also offers a higher PIM break-up rebate in note 3 of Options 7, Section 3.A for Members that meet certain cumulative volume requirements. In particular, Members that execute an average daily volume ("ADV") of 10,000 PIM originating contracts or greater within a month are currently eligible to receive a rebate of (i) \$0.45 per contract in Penny Symbols (in lieu of \$0.40 per contract) for complex PIM orders only, and (ii) \$1.05 per contract in Non-Penny Symbols (in lieu of \$1.00 per contract) for both regular and complex PIM orders.

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<sup>4</sup> A "Priority Customer" is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s), as defined in Nasdaq MRX Options 1, Section 1(a)(36).

<sup>5</sup> Break-up rebates apply only to regular PIM orders of 500 or fewer contracts and to complex PIM orders where the largest leg is 500 or fewer contracts. See Options 7, Section 3.A.

The Exchange now proposes a number of changes to the break-up rebate structure. First, the Exchange proposes to lower the base rebates to \$0.25 in Penny Symbols and \$0.60 per contract in Non-Penny Symbols. Second, the Exchange proposes to replace the existing note 3 incentive described above with a new program. As amended, note 3 of Options 7, Section 3.A would provide:

Break-up Rebates are provided for an originating Priority Customer PIM Order that executes with any response (order or quote) other than the PIM contra-side order. Members that are not in an Affiliated Member or Affiliated Entity relationship and that execute 0.05% or greater of Customer Total Consolidated Volume in non-PIM Priority Customer contracts within a month will receive an additional rebate of: (i) \$0.20 per contract in Penny Symbols for Complex PIM Orders only, (ii) \$0.15 per contract in Penny Symbols for Regular PIM Orders only, and (iii) \$0.45 per contract in Non-Penny Symbols for both Regular and Complex PIM Orders. Alternatively, Affiliated Members or Affiliated Entities will be eligible to receive the rebates in this note 3 without any additional volume requirements. The Exchange will provide the rebate to the OFP arm of an Affiliated Member relationship, or the Appointed OFP arm of an Affiliated Entity relationship.

The new program replaces the current cumulative ADV threshold with a total industry percentage threshold, specifically a Customer Total Consolidated Volume<sup>6</sup> percentage threshold. The Exchange notes that the proposed percentage threshold of 0.05% or greater of Customer Total Consolidated Volume is comparable in terms of requisite volume to the existing ADV threshold of 10,000 or greater contracts. The Exchange is proposing to replace the current cumulative volume thresholds with total industry volume percentages to align with increasing Member activity on MRX over

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<sup>6</sup> Customer Total Consolidated Volume means the total volume cleared at The Options Clearing Corporation in the Customer range in equity and ETF options in that month. See Options 7, Section 3, Table 3.

time. The Exchange notes that total industry percentage thresholds are established concepts within its Pricing Schedule.<sup>7</sup>

The Exchange is also modifying this qualification by requiring that Members execute 0.05% or greater of Customer Total Consolidated Volume in non-PIM Priority Customer contracts (instead of PIM originating contracts, as currently required). The Exchange believes this change will incentivize Members to bring a wider range of order flow for execution on the Exchange, which activity may result in tighter spreads making the Exchange a more attractive trading venue to the benefit of all market participants. As discussed in the following paragraph, this volume qualification only applies to Members that are not in affiliated relationships.

The new program will also offer a new, alternative basis, to qualify for the higher break-up rebates in amended note 3. Specifically, as proposed, Members may enter into certain affiliated relationships (i.e., Affiliated Members<sup>8</sup> or Affiliated Entities<sup>9</sup>) to qualify

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<sup>7</sup> Specifically, the qualifying tier thresholds for the Exchange's maker/taker pricing are based on Customer Total Consolidated Volume percentages. See Options 7, Section 3, Table 3.

<sup>8</sup> An "Affiliated Member" is a Member that shares at least 75% common ownership with a particular Member as reflected on the Member's Form BD, Schedule A. See Options 7, Section 1(c).

<sup>9</sup> An "Affiliated Entity" is a relationship between an Appointed Market Maker and an Appointed OFP for purposes of qualifying for certain pricing specified in the Pricing Schedule. Market Makers and OFPs are required to send an email to the Exchange to appoint their counterpart, at least 3 business days prior to the last day of the month to qualify for the next month. The Exchange will acknowledge receipt of the emails and specify the date the Affiliated Entity is eligible for applicable pricing, as specified in the Pricing Schedule. Each Affiliated Entity relationship will commence on the 1st of a month and may not be terminated prior to the end of any month. An Affiliated Entity relationship will terminate after a one (1) year period, unless either party terminates earlier in writing by sending an email to the Exchange at least 3 business days prior to the last day of the month to terminate for the next month. Affiliated Entity relationships must be renewed

for the higher break-up rebates. The Exchange recently filed to permit Members to enter into Affiliated Entities in order to aggregate volume and qualify for certain pricing incentives, provided they are not Affiliated Members.<sup>10</sup> Accordingly, the proposed changes are intended to enhance participation in the Exchange's new Affiliated Entity program in order to encourage additional order flow to MRX. As described above, the rebates in note 3 will be provided to the OFP<sup>11</sup> arm of the Affiliated Member relationship, or the Appointed OFP in the Affiliated Entity relationship, without additional volume requirements. The Exchange believes that this will encourage Members who are not Affiliated Members to enter into Affiliated Entity relationships and submit any amount of Priority Customer PIM order flow in order to receive the note 3 rebates. The Exchange will also make clear in note 3 that the 0.05% or greater Customer Total Consolidated Volume requirement only applies to Members that are not in an Affiliated Member or Affiliated Entity relationship.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>12</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>13</sup>

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annually by each party sending an email to the Exchange. Affiliated Members may not qualify as a counterparty comprising an Affiliated Entity. Each Member may qualify for only one (1) Affiliated Entity relationship at any given time. See Options 7, Section 1(c).

<sup>10</sup> See SR-MRX-2020-21(not yet published).

<sup>11</sup> An "OFP" is any Member, other than a Market Maker, that submits orders, as agent or principal, to the Exchange. See Options 7, Section 1(c)

<sup>12</sup> 15 U.S.C. 78 f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(4) and (5).

in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's proposed changes to its Pricing Schedule are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for options securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’....”<sup>14</sup>

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its

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<sup>14</sup> NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).



broader forms that are most important to investors and listed companies.”<sup>15</sup>

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for options security transaction services. The Exchange is only one of sixteen options exchanges to which market participants may direct their order flow. Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules. As such, the proposal represents a reasonable attempt by the Exchange to increase its liquidity and market share relative to its competitors.

In this context, the Exchange believes that its proposal for the PIM break-up rebates is reasonable. While the Exchange is proposing to lower the base break-up rebates to \$0.25 in Penny Symbols and \$0.60 per contract in Non-Penny Symbols, the Exchange believes that market participants will continue to be incentivized to send Priority Customer order flow to PIM to receive the base break-up rebate. Furthermore, the Exchange notes the proposed break-up rebates remain in line with similar rebates provided at other exchanges.<sup>16</sup>

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<sup>15</sup> Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

<sup>16</sup> See MIAX Options (“MIAX”) Fee Schedule, Sections 1(a)(v) and (vi), which set forth MIAX Price Improvement Mechanism (“PRIME”) and MIAX Complex PRIME (“cPRIME”) pricing. MIAX PRIME and cPRIME Break-up Credits are \$0.25 per contract (Penny Classes) and \$0.60 per contract (Non-Penny Classes). See also Cboe Exchange, Inc. (“Cboe”) Fee Schedule, Break-Up Credits, which provides Break-Up Credits of \$0.25 per contract (Penny Classes) and \$0.60 per contract (Non-Penny Classes) to orders executed in Cboe’s Automated Improvement Mechanism.

In addition, the Exchange believes that the amended note 3 incentive providing higher break-up rebates to qualifying Members, as described above, is reasonable in several respects. Regarding the change in the volume qualification to replace the current cumulative ADV threshold with a total industry percentage threshold, the Exchange notes that this is to align with increasing Member activity on MRX over time. The Exchange is proposing to base the volume qualification on a percentage of industry volume in recognition of the fact that the volume executed by a Member may rise or fall with industry volume. A percentage of industry volume calculation allows the note 3 qualification to be calibrated to current market volumes rather than requiring a static amount of volume regardless of market conditions. While the amount of volume required by the proposed qualification in note 3 may change in any given month due to increases or decreases in industry volume, the Exchange believes that the proposed threshold requirement is set at an appropriate level. As discussed above, the proposed threshold of 0.05% Customer Total Consolidated Volume is comparable to the existing ADV threshold of 10,000 contracts, so the Exchange anticipates minimal impact to Members as a result of replacing the current cumulative volume threshold with the new total industry percentage threshold. Furthermore, as noted above, total industry percentage thresholds are established concepts within its Pricing Schedule.<sup>17</sup>

The Exchange also believes that modifying this qualification in note 3 to require Members that are not in an Affiliated Member or Affiliated Entity relationship to execute 0.05% or greater of Customer Total Consolidated Volume in non-PIM Priority Customer

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<sup>17</sup> Specifically, the qualifying tier thresholds for the Exchange's maker/taker pricing are based on Customer Total Consolidated Volume percentages. See Options 7, Section 3, Table 3.

contracts (instead of PIM originating contracts, as currently required) is reasonable because this change will incentivize Members to bring a wider range of order flow for execution on the Exchange. This could ultimately result in increased trading opportunities, tighter spreads and greater price discovery, making the Exchange a more attractive trading venue to the benefit of all market participants.

Furthermore, the Exchange believes that the new, alternative basis, to qualify for the higher break-up rebates in amended note 3 is reasonable. In particular, the Exchange will permit Affiliated Members or Affiliated Entities to send any amount of Priority Customer PIM volume for purposes of qualifying for higher break-up rebates. The Exchange believes that this will attract additional Priority Customer PIM order flow to the Exchange and will fortify participation in the Exchange's Affiliated Entity program, as noted above. Permitting Members to enter into an Affiliated Entity relationship for purposes of qualifying the OFP arm of an Affiliated Member relationship, or the Appointed OFP of an Affiliated Entity relationship, for the higher break-up rebates in amended note 3 may also encourage the counterparties that comprise the Affiliated Members or Affiliated Entities to incentivize each other to attract and seek to execute more Priority Customer volume in PIM. In turn, market participants would benefit from the increased liquidity with which to interact and potentially tighter spreads on orders. Overall, incentivizing market participants with increased opportunities to earn higher break-up rebates may increase the quality of the liquidity available on MRX.

The Exchange believes that the PIM break-up rebate changes, as proposed, are equitable and not unfairly discriminatory because the proposed rebates will apply equally to all Priority Customer PIM originating orders that execute against PIM responses. The

Exchange's proposal to permit Affiliated Members or Affiliated Entities to send any amount of Priority Customer PIM volume for purposes of qualifying the OFP arm or the Appointed OFP for the higher break-up rebates in note 3 is equitable and not unfairly discriminatory because all Members who are not Affiliated Members may elect to become an Affiliated Entity. While Priority Customer PIM orders will continue to receive the break-up rebate, as opposed to other market participant orders, the Exchange believes that this application of the rebate is equitable and not unfairly discriminatory because Priority Customer order flow enhances liquidity on the Exchange. This, in turn, provides more trading opportunities and attracts other market participants, thus facilitating tighter spreads, increased order flow and trading opportunities to the benefit of all market participants. Moreover, the Exchange has historically provided lower pricing or other incentives to Priority Customers in order to attract such order flow to MRX.

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.

In terms of intra-market competition, the Exchange does not believe that its proposal will place any category of Exchange market participant at a competitive disadvantage. The proposed changes to the Exchange's PIM break-up rebate program are designed to incentivize market participants to direct PIM order flow to the Exchange. While PIM break-up rebates apply directly to Priority Customer orders, the Exchange believes that the proposed changes benefit all market participants by fortifying and encouraging additional liquidity and order flow to MRX. Furthermore, the Exchange

believes that encouraging additional activity by Affiliated Members and Affiliated Entities in the manner discussed above likewise benefits all market participants as it contributes to the Exchange's depth of book as well as to the top of book liquidity. To the extent that the proposal attracts more liquidity, this increased order flow would continue to make the Exchange a more competitive venue for order execution and all of the Exchange's market participants should benefit from the improved market quality. Enhanced market quality and increased transaction volume that results from the anticipated increase in order flow directed to the Exchange would benefit all market participants and improve competition on the Exchange

In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other options exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and rebate changes. In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of Members or

competing order execution venues to maintain their competitive standing in the financial markets.

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)

Pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>18</sup> the Exchange has designated this proposal as establishing or changing a due, fee, or other charge imposed by the self-regulatory organization on any person, whether or not the person is a member of the self-regulatory organization, which renders the proposed rule change effective upon filing.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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

Not applicable.

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

Not applicable.

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

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-2020-18)

November \_\_, 2020

Self-Regulatory Organizations; Nasdaq MRX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Its Pricing Schedule at Options 7

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 November 13, 2020, 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 its Pricing Schedule at Options 7 in connection with the pricing for orders entered into the Exchange’s Price Improvement Mechanism (“PIM”).<sup>3</sup>

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/mrx/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

<sup>3</sup> PIM is a process by which an Electronic Access Member (“EAM”) can provide price improvement opportunities for a transaction wherein the EAM seeks to facilitate an order it represents as agent, and/or a transaction wherein the EAM solicited interest to execute against an order it represents as agent. See Options 3, Section 13.



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 purpose of the proposed rule change is to amend the Exchange's Pricing Schedule at Options 7 in connection with the pricing for orders entered into the Exchange's PIM.

Today for both regular and complex PIM orders, the Exchange pays a PIM break-up rebate to an originating Priority Customer<sup>4</sup> PIM order that executes with a response (order or quote), other than the PIM contra-side order, of \$0.40 per contract in Penny Symbols and \$1.00 per contract in Non-Penny Symbols.<sup>5</sup> The Exchange also offers a higher PIM break-up rebate in note 3 of Options 7, Section 3.A for Members that meet certain cumulative volume requirements. In particular, Members that execute an average daily volume ("ADV") of 10,000 PIM originating contracts or greater within a month are

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<sup>4</sup> A "Priority Customer" is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s), as defined in Nasdaq MRX Options 1, Section 1(a)(36).

<sup>5</sup> Break-up rebates apply only to regular PIM orders of 500 or fewer contracts and to complex PIM orders where the largest leg is 500 or fewer contracts. See Options 7, Section 3.A.

currently eligible to receive a rebate of (i) \$0.45 per contract in Penny Symbols (in lieu of \$0.40 per contract) for complex PIM orders only, and (ii) \$1.05 per contract in Non-Penny Symbols (in lieu of \$1.00 per contract) for both regular and complex PIM orders.

The Exchange now proposes a number of changes to the break-up rebate structure. First, the Exchange proposes to lower the base rebates to \$0.25 in Penny Symbols and \$0.60 per contract in Non-Penny Symbols. Second, the Exchange proposes to replace the existing note 3 incentive described above with a new program. As amended, note 3 of Options 7, Section 3.A would provide:

Break-up Rebates are provided for an originating Priority Customer PIM Order that executes with any response (order or quote) other than the PIM contra-side order. Members that are not in an Affiliated Member or Affiliated Entity relationship and that execute 0.05% or greater of Customer Total Consolidated Volume in non-PIM Priority Customer contracts within a month will receive an additional rebate of: (i) \$0.20 per contract in Penny Symbols for Complex PIM Orders only, (ii) \$0.15 per contract in Penny Symbols for Regular PIM Orders only, and (iii) \$0.45 per contract in Non-Penny Symbols for both Regular and Complex PIM Orders. Alternatively, Affiliated Members or Affiliated Entities will be eligible to receive the rebates in this note 3 without any additional volume requirements. The Exchange will provide the rebate to the OFP arm of an Affiliated Member relationship, or the Appointed OFP arm of an Affiliated Entity relationship.

The new program replaces the current cumulative ADV threshold with a total industry percentage threshold, specifically a Customer Total Consolidated Volume<sup>6</sup> percentage threshold. The Exchange notes that the proposed percentage threshold of 0.05% or greater of Customer Total Consolidated Volume is comparable in terms of requisite volume to the existing ADV threshold of 10,000 or greater contracts. The Exchange is proposing to replace the current cumulative volume thresholds with total industry volume percentages to align with increasing Member activity on MRX over time. The Exchange notes that total industry percentage thresholds are established concepts within its Pricing Schedule.<sup>7</sup>

The Exchange is also modifying this qualification by requiring that Members execute 0.05% or greater of Customer Total Consolidated Volume in non-PIM Priority Customer contracts (instead of PIM originating contracts, as currently required). The Exchange believes this change will incentivize Members to bring a wider range of order flow for execution on the Exchange, which activity may result in tighter spreads making the Exchange a more attractive trading venue to the benefit of all market participants. As discussed in the following paragraph, this volume qualification only applies to Members that are not in affiliated relationships.

The new program will also offer a new, alternative basis, to qualify for the higher break-up rebates in amended note 3. Specifically, as proposed, Members may enter into

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<sup>6</sup> Customer Total Consolidated Volume means the total volume cleared at The Options Clearing Corporation in the Customer range in equity and ETF options in that month. See Options 7, Section 3, Table 3.

<sup>7</sup> Specifically, the qualifying tier thresholds for the Exchange's maker/taker pricing are based on Customer Total Consolidated Volume percentages. See Options 7, Section 3, Table 3.

certain affiliated relationships (i.e., Affiliated Members<sup>8</sup> or Affiliated Entities<sup>9</sup>) to qualify for the higher break-up rebates. The Exchange recently filed to permit Members to enter into Affiliated Entities in order to aggregate volume and qualify for certain pricing incentives, provided they are not Affiliated Members.<sup>10</sup> Accordingly, the proposed changes are intended to enhance participation in the Exchange's new Affiliated Entity program in order to encourage additional order flow to MRX. As described above, the rebates in note 3 will be provided to the OFP<sup>11</sup> arm of the Affiliated Member relationship, or the Appointed OFP in the Affiliated Entity relationship, without additional volume requirements. The Exchange believes that this will encourage Members who are not Affiliated Members to enter into Affiliated Entity relationships and

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<sup>8</sup> An "Affiliated Member" is a Member that shares at least 75% common ownership with a particular Member as reflected on the Member's Form BD, Schedule A. See Options 7, Section 1(c).

<sup>9</sup> An "Affiliated Entity" is a relationship between an Appointed Market Maker and an Appointed OFP for purposes of qualifying for certain pricing specified in the Pricing Schedule. Market Makers and OFPs are required to send an email to the Exchange to appoint their counterpart, at least 3 business days prior to the last day of the month to qualify for the next month. The Exchange will acknowledge receipt of the emails and specify the date the Affiliated Entity is eligible for applicable pricing, as specified in the Pricing Schedule. Each Affiliated Entity relationship will commence on the 1st of a month and may not be terminated prior to the end of any month. An Affiliated Entity relationship will terminate after a one (1) year period, unless either party terminates earlier in writing by sending an email to the Exchange at least 3 business days prior to the last day of the month to terminate for the next month. Affiliated Entity relationships must be renewed annually by each party sending an email to the Exchange. Affiliated Members may not qualify as a counterparty comprising an Affiliated Entity. Each Member may qualify for only one (1) Affiliated Entity relationship at any given time. See Options 7, Section 1(c).

<sup>10</sup> See SR-MRX-2020-21(not yet published).

<sup>11</sup> An "OFP" is any Member, other than a Market Maker, that submits orders, as agent or principal, to the Exchange. See Options 7, Section 1(c)

submit any amount of Priority Customer PIM order flow in order to receive the note 3 rebates. The Exchange will also make clear in note 3 that the 0.05% or greater Customer Total Consolidated Volume requirement only applies to Members that are not in an Affiliated Member or Affiliated Entity relationship.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>12</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>13</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's proposed changes to its Pricing Schedule are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for options securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: "[n]o one disputes that competition for order flow is 'fierce.' ... As the SEC explained, '[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution'; [and] 'no exchange can afford to take its market share percentages for granted' because 'no

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<sup>12</sup> 15 U.S.C. 78 f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(4) and (5).

exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers' ...."<sup>14</sup>

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system "has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies."<sup>15</sup>

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for options security transaction services. The Exchange is only one of sixteen options exchanges to which market participants may direct their order flow. Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules. As such, the proposal represents a reasonable attempt by the Exchange to increase its liquidity and market share relative to its competitors.

In this context, the Exchange believes that its proposal for the PIM break-up rebates is reasonable. While the Exchange is proposing to lower the base break-up rebates to \$0.25 in Penny Symbols and \$0.60 per contract in Non-Penny Symbols, the

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<sup>14</sup> NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

<sup>15</sup> Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) ("Regulation NMS Adopting Release").

Exchange believes that market participants will continue to be incentivized to send Priority Customer order flow to PIM to receive the base break-up rebate. Furthermore, the Exchange notes the proposed break-up rebates remain in line with similar rebates provided at other exchanges.<sup>16</sup>

In addition, the Exchange believes that the amended note 3 incentive providing higher break-up rebates to qualifying Members, as described above, is reasonable in several respects. Regarding the change in the volume qualification to replace the current cumulative ADV threshold with a total industry percentage threshold, the Exchange notes that this is to align with increasing Member activity on MRX over time. The Exchange is proposing to base the volume qualification on a percentage of industry volume in recognition of the fact that the volume executed by a Member may rise or fall with industry volume. A percentage of industry volume calculation allows the note 3 qualification to be calibrated to current market volumes rather than requiring a static amount of volume regardless of market conditions. While the amount of volume required by the proposed qualification in note 3 may change in any given month due to increases or decreases in industry volume, the Exchange believes that the proposed threshold requirement is set at an appropriate level. As discussed above, the proposed threshold of 0.05% Customer Total Consolidated Volume is comparable to the existing ADV threshold of 10,000 contracts, so the Exchange anticipates minimal impact to Members as

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<sup>16</sup> See MIAX Options (“MIAX”) Fee Schedule, Sections 1(a)(v) and (vi), which set forth MIAX Price Improvement Mechanism (“PRIME”) and MIAX Complex PRIME (“cPRIME”) pricing. MIAX PRIME and cPRIME Break-up Credits are \$0.25 per contract (Penny Classes) and \$0.60 per contract (Non-Penny Classes). See also Cboe Exchange, Inc. (“Cboe”) Fee Schedule, Break-Up Credits, which provides Break-Up Credits of \$0.25 per contract (Penny Classes) and \$0.60 per contract (Non-Penny Classes) to orders executed in Cboe’s Automated Improvement Mechanism.

a result of replacing the current cumulative volume threshold with the new total industry percentage threshold. Furthermore, as noted above, total industry percentage thresholds are established concepts within its Pricing Schedule.<sup>17</sup>

The Exchange also believes that modifying this qualification in note 3 to require Members that are not in an Affiliated Member or Affiliated Entity relationship to execute 0.05% or greater of Customer Total Consolidated Volume in non-PIM Priority Customer contracts (instead of PIM originating contracts, as currently required) is reasonable because this change will incentivize Members to bring a wider range of order flow for execution on the Exchange. This could ultimately result in increased trading opportunities, tighter spreads and greater price discovery, making the Exchange a more attractive trading venue to the benefit of all market participants.

Furthermore, the Exchange believes that the new, alternative basis, to qualify for the higher break-up rebates in amended note 3 is reasonable. In particular, the Exchange will permit Affiliated Members or Affiliated Entities to send any amount of Priority Customer PIM volume for purposes of qualifying for higher break-up rebates. The Exchange believes that this will attract additional Priority Customer PIM order flow to the Exchange and will fortify participation in the Exchange's Affiliated Entity program, as noted above. Permitting Members to enter into an Affiliated Entity relationship for purposes of qualifying the OFP arm of an Affiliated Member relationship, or the Appointed OFP of an Affiliated Entity relationship, for the higher break-up rebates in amended note 3 may also encourage the counterparties that comprise the Affiliated

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<sup>17</sup> Specifically, the qualifying tier thresholds for the Exchange's maker/taker pricing are based on Customer Total Consolidated Volume percentages. See Options 7, Section 3, Table 3.



Members or Affiliated Entities to incentivize each other to attract and seek to execute more Priority Customer volume in PIM. In turn, market participants would benefit from the increased liquidity with which to interact and potentially tighter spreads on orders. Overall, incentivizing market participants with increased opportunities to earn higher break-up rebates may increase the quality of the liquidity available on MRX.

The Exchange believes that the PIM break-up rebate changes, as proposed, are equitable and not unfairly discriminatory because the proposed rebates will apply equally to all Priority Customer PIM originating orders that execute against PIM responses. The Exchange's proposal to permit Affiliated Members or Affiliated Entities to send any amount of Priority Customer PIM volume for purposes of qualifying the OFP arm or the Appointed OFP for the higher break-up rebates in note 3 is equitable and not unfairly discriminatory because all Members who are not Affiliated Members may elect to become an Affiliated Entity. While Priority Customer PIM orders will continue to receive the break-up rebate, as opposed to other market participant orders, the Exchange believes that this application of the rebate is equitable and not unfairly discriminatory because Priority Customer order flow enhances liquidity on the Exchange. This, in turn, provides more trading opportunities and attracts other market participants, thus facilitating tighter spreads, increased order flow and trading opportunities to the benefit of all market participants. Moreover, the Exchange has historically provided lower pricing or other incentives to Priority Customers in order to attract such order flow to MRX.

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.

In terms of intra-market competition, the Exchange does not believe that its proposal will place any category of Exchange market participant at a competitive disadvantage. The proposed changes to the Exchange's PIM break-up rebate program are designed to incentivize market participants to direct PIM order flow to the Exchange. While PIM break-up rebates apply directly to Priority Customer orders, the Exchange believes that the proposed changes benefit all market participants by fortifying and encouraging additional liquidity and order flow to MRX. Furthermore, the Exchange believes that encouraging additional activity by Affiliated Members and Affiliated Entities in the manner discussed above likewise benefits all market participants as it contributes to the Exchange's depth of book as well as to the top of book liquidity. To the extent that the proposal attracts more liquidity, this increased order flow would continue to make the Exchange a more competitive venue for order execution and all of the Exchange's market participants should benefit from the improved market quality. Enhanced market quality and increased transaction volume that results from the anticipated increase in order flow directed to the Exchange would benefit all market participants and improve competition on the Exchange

In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate

opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other options exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and rebate changes. In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of Members or competing order execution venues to maintain their competitive standing in the financial markets.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>18</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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

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

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MRX-2020-18 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-MRX-2020-18. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the

Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-MRX-2020-18 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

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

**NASDAQ MRX, LLC Rules**

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**OPTIONS 7 PRICING SCHEDULE**

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**Section 3. Regular Order Fees and Rebates**

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**A. PIM Pricing for Regular and Complex Orders****Penny Symbols**

<b>Market Participant</b>	<b>Fee for PIM Originating Orders</b>	<b>Fee for PIM Contra-Side Orders</b>	<b>Fee for Responses to PIM Orders</b>	<b>Break-up Rebate<sup>(2)(3)</sup></b>
Market Maker <sup>(4)</sup>	\$0.20	\$0.02	\$0.50	N/A
Non-Nasdaq MRX Market Maker (FarMM)	\$0.20	\$0.02	\$0.50	N/A
Firm Proprietary / Broker-Dealer	\$0.20	\$0.02	\$0.50	N/A
Professional Customer	\$0.20	\$0.02	\$0.50	N/A
Priority Customer	\$0.00	\$0.02	\$0.50	(\$0.[40]25)

**Non-Penny Symbols**

<b>Market Participant</b>	<b>Fee for PIM Originating Orders</b>	<b>Fee for PIM Contra-Side Orders</b>	<b>Fee for Responses to PIM Orders</b>	<b>Break-up Rebate<sup>(2)(3)</sup></b>
Market Maker <sup>(4)</sup>	\$0.20	\$0.02	\$1.10	N/A
Non-Nasdaq MRX Market Maker (FarMM)	\$0.20	\$0.02	\$1.10	N/A
Firm Proprietary / Broker-Dealer	\$0.20	\$0.02	\$1.10	N/A
Professional Customer	\$0.20	\$0.02	\$1.10	N/A
Priority Customer	\$0.00	\$0.02	\$1.10	(\$[1.00]0.60)

1. Reserved
2. Break-up Rebates apply only to Regular PIM Orders of 500 or fewer contracts and to Complex PIM Orders where the largest leg is 500 or fewer contracts.
3. Break-up Rebates are provided for an originating Priority Customer PIM Order that executes with any response (order or quote) other than the PIM contra-side order. [Notwithstanding the foregoing, ]Members that are not in an Affiliated Member or Affiliated Entity relationship and that execute [an ADV of] 0.05% or greater of Customer Total Consolidated Volume[10,000] in non-PIM Priority Customer contracts[originating contracts or greater] within a month will receive an additional rebate of: (i) \$0.[45]20 per contract in Penny Symbols [(in lieu of \$0.40 per contract)] for Complex PIM Orders only, [and] (ii) [\$1.05]\$0.15 per contract in [Non-]Penny Symbols for Regular PIM Orders only [(in lieu of \$1.00 per contract) for both Regular and Complex PIM Orders], and (iii) \$0.45 per contract in Non-Penny Symbols for both Regular and Complex PIM Orders. Alternatively, Affiliated Members or Affiliated Entities will be eligible to receive the rebates in this note 3 without any additional volume requirements. The Exchange will provide the rebate to the OFP arm of an Affiliated Member relationship, or the Appointed OFP arm of an Affiliated Entity relationship.
4. This fee also applies to Market Maker orders sent to the Exchange by Electronic Access Members.

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