Required fields are shown with yellow backgrounds and asterisks.

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

File No. * SR 2023 - * 10
Amendment No. (req. for Amendments *)

Filing by Nasdaq MRX, LLC

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

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

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

Rule

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

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

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

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

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

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

Amend Complex Orders Rules

Contact Information

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

First Name * Angela Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * Angela.Dunn@nasdaq.com

Telephone * (215) 496-5692 Fax

Signature

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

Date 06/06/2023

By John Zecca (Name *)

(Title *) EVP and Chief Legal Officer

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

Date: 2023.06.06 16:00:26 -04'00'

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add | Remove | View SR-MRX-2023-10 19b-4.doc	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add | Remove | View SR-MRX-2023-10 Exhibit 1.doc	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies * 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 2- Notices, Written Comments, Transcripts, Other Communications Add | Remove | View	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G. ☐ Exhibit Sent As Paper Document
Exhibit 3 - Form, Report, or Questionnaire Add | Remove | View	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change. ☐ Exhibit Sent As Paper Document
Exhibit 4 - Marked Copies Add | Remove | View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add | Remove | View SR-MRX-2023-10 Exhibit 5.doc	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change
Partial Amendment Add | Remove | View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Nasdaq MRX, LLC ("MRX" 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 ("Commission") a proposal to amend Options 3, Section 7, Types of Orders and Order and Quote Protocols; Options 3, Section 11, Auction Mechanisms; Options 3, Section 12, Crossing Orders, Section 13, Price Improvement Mechanisms for Crossing Transactions; Options 3, Section 14, Complex Orders; Options 3, Section 15, Simple Order Risk Protections; and Options 3, Section 16, Complex Order Risk Protections.

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 the Board of Directors of the Exchange on November 16, 2021. No other action is necessary for the filing of the rule change.

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

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

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

2 17 CFR 240.19b-4.

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

a. Purpose

In connection with a technology migration to an enhanced Nasdaq, Inc. ("Nasdaq") functionality, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq affiliate exchanges. Also, the Exchange intends to remove certain functionality. Specifically, the following sections would be amended: Options 3, Section 7, Types of Orders and Order and Quote Protocols; Options 3, Section 11, Auction Mechanisms; Options 3, Section 12, Crossing Orders, Section 13, Price Improvement Mechanisms for Crossing Transactions; Options 3, Section 14, Complex Orders; Options 3, Section 15, Simple Order Risk Protections; and Options 3, Section 16, Complex Order Risk Protections. Each change will be described below.

Re-Introduction of Stock-Related Strategies and Elimination of Trade Value Allowance

Before the migration of MRX to an enhanced technology platform,[3] MRX Members were able to trade certain Stock-Option Orders as described in MRX Options 3, Section 14(a)(2),[4] Stock-Complex Orders as described in MRX Options 3, Section

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

4 The term "Stock-Option Order" refers to an order for a Stock-Option Strategy as defined in Options 3, Section 14(a)(2). A Stock-Option Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than

14(a)(3),[5] Complex QCC with Stock Orders as described in MRX Options 3, Section 14(b)(15),[6] QCC with Stock Orders[7] as described in Options 3, Section 7(t) and 12(e), as described in Supplementary Material .03 of MRX Options 3, Section 14 ("Delayed Functionalities").[8] Separately, prior to the MRX migration, the Exchange offered a Trade Value Allowance,[9] which was also delayed.

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eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg. See MRX Options 3, Section 14(a)(2).

5 The term "Stock-Complex Order" refers to an order for a Stock-Complex Strategy as defined in Options 3, Section 14(a)(3). A Stock-Complex Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of a Complex Options Strategy on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing. See MRX Options 3, Section 14(a)(3).

6 A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in subparagraph (b)(6) of Options 3, Section 14, entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to MRX Options 3, Section 12(f).

7 A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12(e). See Options 3, Section 7(t).

8 See note 3 above.

9 The Trade Value Allowance permits Stock-Option Strategies and Stock-Complex Strategies at valid increments Options 3, Section 14(c)(1), Stock-Option Strategies and Stock-Complex Strategies to trade outside of their expected notional trade value by a specified amount, in order to facilitate the

At the time the Exchange issued an Options Trader Alert announcing migration details, the Exchange noted that these Delayed Functionalities would not be available for symbols that migrated to the platform and thereafter, until such time as the Exchange recommenced their availability by announcing a date in an Options Trader Alert, which date would be prior to one year from the start of the migration of the symbols to the platform.[10] The Exchange further noted that it was contemplating amendments to its stock-tied functionality and desired additional time to draft and code those changes before reintroducing stock-tied functionality on MRX.[11] MRX's technology migration commenced on November 7, 2022 and was completed on December 5, 2022.[12] At this time, the Exchange proposes to re-introduce stock-tied functionality and remove the delayed implementation language within Options 3, Sections 7, 11, 12, 13, and 14.

Stock-Tied Functionality

MRX proposes to: (1) re-introduce stock-tied functionality; and (2) amend the stock-tied functionality that was available before the migration. Before the migration of MRX to an enhanced technology platform when the Exchange was offering stock-tied

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execution of the stock leg and options leg(s). The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the Member, or a default value determined by the Exchange and announced to Members; provided that any amount of Trade Value Allowance is permitted in mechanisms pursuant to Options 3, Sections 11 and 13 when auction orders do not trade solely with their contra-side order. See Supplementary Material .03 of MRX Options 3, Section 14.

10 See note 3 above.

11 See note 3 above. MRX indicated that it would also need time to file any related rule changes with the Commission prior to reintroducing stock-tied functionality.

12 See Options Trader Alert #2022-34.

functionality, MRX Members desiring to execute an order with stock or an ETF component were required to enter into a brokerage agreement with a broker-dealer designated by the Exchange and were permitted to enter into such an agreement with one or more other broker-dealers to which the Exchange is able to route stock orders.[13]

The Exchange proposes to amend its rules to instead require that a Member desiring to execute a Stock-Option Order or a Stock-Complex Order enter into a brokerage agreement with Nasdaq Execution Services, LLC ("NES") which will execute the stock or ETF component of the order.[14] The stock component of a Qualified Contingent Cross ("QCC") with Stock Order or a Complex QCC with Stock Order will continue to be handled by a third-party broker as provided in Options 3, Sections 12(e) and (f).[15] NES is a broker-dealer owned and operated by Nasdaq, Inc. NES, an affiliate of the Exchange, has been approved by the Commission to become a Member of the Exchange and perform inbound routing on behalf of the Exchange.[16] Additionally, NES is permitted to route outbound orders either directly or indirectly through a third party routing broker-dealer to other market centers and perform other functions regarding the

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13 See Supplementary Material .02 to Options 3, Section 14.

14 Id.

15 MRX members may also trade QCC Orders and complex QCC Orders. See Options 3, Section 12(c) and (d). For those orders, the parties to the trade will arrange for the execution of the stock component of the order.

16 See Securities Exchange Act Release No. 79995 (February 9, 2017), 82 FR 10811 (February 15, 2017) (SR-ISEMercury-2016-22) (Order Granting Approval of Proposed Rule Changes, as Modified by Amendment Nos. 1 and 2 Thereto, To Permit Nasdaq Execution Services, LLC To Become an Affiliated Member of Each Exchange To Perform Certain Routing and Other Functions).

cancellation of orders and the maintenance of a NES error account.[17]

NES currently acts as agent for orders to buy and sell the underlying stock or ETF component of a Complex Order on Nasdaq Phlx LLC ("Phlx").[18] The functions performed by NES on Phlx today are identical to the functions that MRX proposes for NES to perform for MRX Members.[19] Identical to Phlx, after MRX's System determines that a Complex Order execution is possible and identifies the prices for each component of such Complex Order, MRX will electronically communicate the stock or ETF component of the Complex Order to NES for execution.[20] NES, acting as agent for the orders to buy and sell the underlying stock or ETF, will execute the orders in the over-the-counter ("OTC") market and will handle the orders pursuant to applicable rules

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17 Id. MRX is subject to certain limitations and conditions such as maintaining a Regulatory Services Agreement with FINRA, as well as an agreement pursuant to Rule 17d-2 under the Act, among other limitations and conditions.

18 See Phlx Options 3, Sections 13(b), 14(a) and 16(b).

19 See Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011) (SR-Phlx-2010-157) (Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, Relating to Complex Orders) ("Phlx Complex Order Approval"). NES assumed the stock execution functionalities that were previously performed by NOS. Phlx subsequently filed to permit both inbound and outbound orders to be routed through NES instead of Nasdaq Options Services LLC ("NOS"). See Securities Exchange Act Release No. 71417 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-Phlx-2014-04) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Outbound Routing) and 71416 (January 28, 2014), 79 FR 6244 (February 3, 2014) (SR-Phlx-2014-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Inbound Routing of Options Orders).

20 See proposed Supplementary Material .08(b) to Options 3, Section 11, proposed Options 3, Section 12(b)(2), proposed Supplementary Material .09(b) to Options 3, Section 13, proposed Supplementary Material .02 to Options 3, Section 14 and proposed Options 3, Section 16(d). See also Phlx Options 3, Section 13(b)(10)(ii), Options 3, Section 16(b).

regarding equity trading, including the rules governing trade reporting, trade-throughs, and short sales. Before the migration of MRX to an enhanced technology platform when the Exchange was offering stock-tied functionality, this function was performed by a third-party broker-dealer.

The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report the stock or ETF component of a Complex Order. However, there are two differences in the way Phlx and MRX handle stock-tied option orders.

First, while both Phlx and MRX have certain risk protections for complex orders, they differ. With respect to MRX, the execution price of the Complex Order must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). Specifically, today, MRX Options 3, Section 16(a) provides that the System will not permit any leg of a complex strategy to trade-through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. In contrast, Phlx Options 3, Section 16(b)(i) describes Phlx's Acceptable Complex Execution ("ACE") Parameter which defines a price range outside of which a complex order will not be executed. On Phlx, a complex order to sell is not executed at a price that is lower than the cNBBO[21] bid by more than the ACE Parameter. Conversely, on

21 The term "cNBBO" means the best net debit or credit price for a Complex Order Strategy based on the NBBO for the individual options components of a Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. See Phlx Options 3, Section 14(a)(vi).

Phlx, a complex order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. While MRX's and Phlx's price checks differ, both markets seek to prevent executions from occurring at certain prices and at certain percentages from the NBBO. MRX's proposal would require NES to apply the same price check for stock-tied functionality that was being applied previously by a third-party broker-dealer that executed the stock or ETF component of a complex strategy on behalf of MRX Members prior to MRX's technology migration. MRX Members would continue to be subject to the same price check which is applied to all Complex Orders executed on MRX.

Second, MRX and Phlx differ with respect to the manner in which their systems handle Stock-Option Strategies and Stock-Complex Strategies that would execute against interest on the Complex Order Book at a price that does not meet the price checks in their respective rules or do not meet Regulation SHO provisions as provided for in proposed Options 3, Section 16(e)[22] are handled by their respective systems. As proposed, MRX will hold orders on the Complex Order book that cannot be executed because of Regulation SHO or price check restrictions, unless the Member requests the order to be cancelled. If an MRX Member elects to have the order held on the Complex Order Book, the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. MRX's proposed approach would provide the Member with optionality as to the handing of the order. The Exchange believes providing the choice to

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22 As proposed, NES will only execute Stock-Option Strategies and Stock-Complex Strategies if the underlying covered security component is in accordance with Rule 201 of Regulation SHO.

have the order held on the Complex Order Book provides Members with an opportunity for an execution.

NES

NES is a registered broker-dealer and member of various exchanges and the Financial Industry Regulatory Authority ("FINRA"). NES will be responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order.[23] Because these trades will occur off-exchange, the principal regulator is FINRA. Furthermore, today, NES is responsible for compliance with FINRA rules generally and is subject to examination by FINRA. Specifically, NES is subject to FINRA Rule 3110, which generally requires that the policies and procedures and supervisory systems of a broker-dealer be reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules, including those relating to the misuse of material non-public information. To this end, today, NES has in place policies related to confidentiality and the potential for informational advantages relating to its affiliates, intended to protect against the misuse

[23] The Commission's approval order for Phlx stated that NOS (now NES) "…as a facility of the Phlx, NOS is subject to oversight by the Commission and by the Phlx. In addition, NOS, a member of FINRA, is responsible for compliance with applicable rules regarding equity trading, including rules governing trade reporting, trade-throughs and short sales, and is subject to examination by FINRA. Because NOS will execute the stock or ETF component of a Complex Order in the OTC market, the principal regulator of these trades will be FINRA, rather than the Phlx or Nasdaq." See SR-Phlx-2010-157 76 FR 5630 at 5625, footnote 20. Phlx originally set up its affiliated broker-dealers as two separate entities, NES and NOS. When Phlx replaced NOS with NES, it noted in the rule change that NES will operate the same way as NOS operated, in terms of routing options orders to destination options exchanges. See SR-Phlx-2014-04, 79 FR 6253 at 6254.

of material nonpublic information.[24] In particular, NES will have in place policies and procedures designed to prevent the misuse of material non-public information related to stock-tied executions. Of note, NES only receives information about the stock or ETF portion of the order from the Exchange. As mentioned herein, today, NES is responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order on Phlx. MRX will adopt identical policies and procedures for its stock-tied functionality as are in place on Phlx today.

In addition, because the execution and reporting of the stock/ETF piece will occur otherwise than on MRX or any other exchange, it will be handled by NES pursuant to applicable rules regarding equity trading,[25] including the rules governing trade reporting, trade-throughs and short sales. Specifically, NES will report the trades to the Trade

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24 Similarly, the Exchange does establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and NES. Additionally NES undertook all NOS' responsibilities with respect to the execution and reporting of the underlying security component of a Complex Order. See SR-Phlx-2014-04 at note 20. Therefore, members of FINRA or the NASDAQ Stock Market ("NASDAQ") who were required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with NOS in order to trade Complex Orders containing a stock/ETF component and firms that are not members of FINRA or NASDAQ who were required to have a Qualified Special Representative ("QSR") arrangement with NOS in order to trade Complex Orders containing a stock/ETF component were required to have such arrangements with NES. See Securities Exchange Act Release No. 71417 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-Phlx-2014-04) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Outbound Routing) and 71416 (January 28, 2014), 79 FR 6244 (February 3, 2014) (SR-Phlx-2014-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Inbound Routing of Options Orders).

25 Once the orders are communicated to the broker-dealer for execution, the broker-dealer has complete responsibility for determining whether the orders may be executed in accordance with all of the rules applicable to execution of equity orders.

Reporting Facility.[26] Firms that are members of FINRA are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with NES in order to trade Complex Orders containing a stock/ETF component. Firms that are not members of FINRA are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade Complex Orders containing a stock/ETF component. This requirement is codified in proposed Supplementary Material .08 to Options 3, Section 11, proposed Options 3, Section 12(b)(1), proposed Supplementary Material .09 to Options 3, Section 13 and proposed Supplementary Material .07 to Options 3, Section 14. Accordingly, this process is available to all MRX Members and the stock/ETF component of a Complex Order, once executed, will be properly processed for trade reporting purposes. Phlx has identical requirements within its Options 3, Sections 13(b)(10) and 14(a)(i).

With respect to trade-throughs, the Exchange believes that the stock/ETF component of a Complex Order is eligible for the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. A Qualified Contingent Trade is a transaction consisting of two or more component orders, executed as agent or principal, that satisfy the six elements in the Commission's order exempting Qualified Contingent Trades ("QCTs") from the requirements of Rule 611(a),[27] which requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably

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26 Specifically, the trades will be reported to the FINRA/Nasdaq TRF which is a facility of FINRA that is operated by Nasdaq, Inc. and utilizes Automated Confirmation Transaction ("ACT") Service technology.

27 17 CFR 242.611(a).

designed to prevent trade-throughs.[28] The Exchange believes that the stock/ETF portion of a Complex Order under this proposal complies with all six requirements. Moreover, as explained below, MRX's System will validate compliance with each requirement such that any matched order received by NES under this proposal has been checked for compliance with the exemption, as follows:

> (1) At least one component order is in an NMS stock: The stock/ETF component must be an NMS stock, which is validated by the System;
>
> (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent: A Complex Order, by definition consists of a single net/debit price and this price contingency applies to all the components of the order, such that the stock price computed and sent to NES allows the stock/ETF order to be executed at the proper net debit/credit price based on the execution price of each of the option legs, which is determined by the MRX System;
>
> (3) the execution of one component is contingent upon the execution of all other components at or near the same time: Once a Complex Order is

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[28] See Securities Exchange Act Release Nos. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) ("QCT Exemptive Order"). See also Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006). The QCT Exemption applies to trade-throughs caused by the execution of an order involving one or more NMS stocks that are components of a "qualified contingent trade." As described more fully in the QCT Exemptive Order, a qualified contingent trade is a transaction consisting of two or more component orders, executed as principal or agent, where: (1) At least one component order is an NMS stock; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (*e.g.,* the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) the Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

accepted and validated by the System, the entire package is processed as a single transaction and each of the option leg and stock/ETF components are simultaneously processed;

(4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed: Complex Orders, upon entry, must have a size for each component and a net debit/credit, which the System validates and processes to determine the ratio between the components; an order is rejected if the net debit/credit price and size are not provided on the order;

(5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled: under this proposal, the stock/ETF component must be the underlying security respecting the option legs, which is validated by the System; and

(6) the transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade: Under this proposal, the ratio between the options and stock/ETF must be a conforming ratio (8 contracts per 100 shares), which the System validates, and which under reasonable risk valuation methodologies, means that the stock/ETF position is fully hedged.[29]

Furthermore, proposed Supplementary Material .08 to Options 3, Section 11, proposed Options 3, Section 12(b)(1), proposed Supplementary Material .09 to Options 3, Section 13 and proposed Supplementary Material .07 to Options 3, Section 14 provide that Members may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption. Members submitting such Complex Orders with a stock/ETF component represent that such orders comply

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[29] A trading center may demonstrate that an Exempted NMS Stock Transaction is fully hedged under the circumstances based on the use of reasonable risk-valuation methodologies. The release approving the original exemption stated: To effectively execute a contingent trade, its component orders must be executed in full or in ratio at its predetermined spread or ratio. "In ratio" clarifies that component orders of a contingent trade do not necessarily have to be executed in full, but any partial executions must be in a predetermined ratio.

with the Qualified Contingent Trade Exemption. Thus, the Exchange believes that Complex Orders consisting of a stock/ETF component will comply with the exemption and that MRX's System will validate such compliance to assist NES in carrying out its responsibilities as agent for these orders.

With respect to short sale regulation, the proposed handling of the stock/ETF component of a Complex Order under this proposal should not raise any issues of compliance with the currently operative provisions of Regulation SHO.[30] When a Complex Order has a stock/ETF component, Members must indicate, pursuant to Regulation SHO, whether that order involves a long or short sale. The System will accept Complex Orders with a stock/ETF component marked to reflect either a long or short position; specifically, orders not marked as buy, sell or sell short will be rejected by MRX's System.[31] The System will electronically deliver the stock/ETF component to NES for execution. Simultaneous to the options execution on MRX's System, NES will execute and report the stock/ETF component, which will contain the long or short indication as it was delivered by the Member to MRX's System. Accordingly, NES, as a trading center under Rule 201, will be compliant with the requirements of Regulation SHO. Of course, broker-dealers, including both NES and the Members submitting orders to MRX with a stock/ETF component, must comply with Regulation SHO. NES' compliance team updates, reviews and monitors NES' policies and procedures including those pertaining to Regulation SHO on an annual basis.

Further, proposed Supplementary Material .08(c) to Options 3, Section 11, and

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30 17 CFR 242.200 *et seq*.

31 The Exchange also accepts short sell exempt orders as described herein.

proposed Options 3, Section 12(b)(3), proposed Supplementary Material .09(c) to Options 3, Section 13, and proposed Options 3, Section 16(e) provide that when the short sale price test in Rule 201 of Regulation SHO[32] is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component[33] of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order Book, if consistent with Member instructions (Members may always elect to cancel the order).[34] The order may execute at a price that is not equal to or below the current national best bid.[35] This proposed rule is similar to Phlx Options 3, Section 16(b) except that unlike Phlx, MRX will not cancel back the Complex Order to the entering Member unless the Member requests that the order be cancelled. As noted above, MRX and Phlx differ with respect to the manner in which their systems handle Stock-Option Strategies

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32 See Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010) ("Rule 201 Adopting Release").

33 For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

34 See proposed Options 3, Section 16(e). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and Supplementary Material .09 to Options 3, Section 13.

35 See proposed Options 3, Section 16(e).

and Stock-Complex Strategies that do not meet requisite price checks in their respective rules or do not meet the requirements of Regulation SHO. As proposed, MRX will hold orders on the Complex Order book that cannot be executed pursuant to Regulation SHO restrictions, unless the Member requests the order to be cancelled.[36] If an MRX Member elects to have the order held, the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. MRX's proposed approach would the Member with optionality as to the handing of the order. The Exchange believes providing the choice to have the order held provides Members with an opportunity for an execution.

For these reasons, the processing of the stock/ETF component of a Complex Order under this proposal will comply with applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs and short sales. NES's responsibilities respecting these equity trading rules will be documented in NES's written policies and procedures. NES' compliance team updates, reviews and monitors NES' policies and procedures regarding equity trading rules on an annual basis. NES is regulated by FINRA and as such, NES policies and procedures are subject to review and examinations by FINRA.

As part of the execution of the stock/ETF component, NES will ensure that the execution price is within the intra-day high-low range for the day in that stock at the time the Complex Order is processed and within a certain price range from the current market

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36 See proposed Options 3, Section 16(e).

pursuant to Options 3, Section 16(a),[37] which the Exchange will establish in an Options Trader Alert. If the stock price is not within these parameters, the Complex Order is not executable and would be held on the order book or cancelled, consistent with Member instructions.[38] Before the migration of MRX to enhanced technology platform when the Exchange was offering stock-tied functionality, the third-party broker-dealer would ensure the execution price was within the intra-day high-low range. With the transition to NES, the Exchange would commence performing this check. Members who transact stock-tied functionality on MRX would therefore continue to be subject to the same execution price check with NES as they were before the migration.

The Exchange believes that the continued electronic submission of the stock/ETF piece of the Complex Order to NES for execution should help ensure that the Complex Order, as a whole, is executed timely and at the desired price. In addition, the Exchange's electronic communication of the stock or ETF component to NES for execution eliminates the need for each party to separately submit the stock component to a broker-dealer for execution. The execution of the stock/ETF portion of a Complex Order will be immediate; the Exchange's System will calculate the stock price based on the net debit/credit price of the Complex Order,[39] while also calculating and determining

[37] This intra-day high-low range check does not occur for Complex PIM Orders, Complex Facilitation Orders and Complex SOM Orders, and also does not occur for Complex Customer Cross Orders.

[38] See proposed Options 3, Section 16(d). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and Supplementary Material .09 to Options 3, Section 13.

[39] The stock/ETF price is, of course, included within the net debit/credit price of the Complex Order.

the appropriate options price(s), all electronically. The Exchange continues to believe that this practice would not require the Exchange to later nullify options trades if the stock price cannot be achieved. Accordingly, like Phlx, the Exchange is not proposing to adopt a rule permitting such option trade nullifications because the trade would not occur at a price that later required nullification due to the unavailability of the stock/ETF price. The Exchange further believes that the certainty associated with such electronic calculations and processing will continue to be an attractive feature for Members transacting Complex Orders with a stock or ETF component. Likewise, Phlx does not have a rule for options trade nullification for similar transactions. Phlx reasoned in its proposal to similarly use an affiliate to execute the stock or ETF component of a Complex Order that because such execution would be immediate, with Phlx's system calculating the stock or ETF price based on the net debit/credit price of the Complex Order while also calculating and determining the appropriate options price(s), that it believed that its approach would not require Phlx to later nullify options trades if the stock price cannot be achieved.[40]

The Exchange also believes that it is appropriate to construct a program wherein its affiliate, NES, is the exclusive conduit for the execution of the stock/ETF component of a Complex Order under this proposal, similar to Phlx.[41] As a practical matter, complex

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40 See Phlx Complex Order Approval supra at 5633.

41 See MRX General 2, Section 4(b) which provides that Nasdaq, Inc., which owns NASDAQ Execution Services, LLC and the Exchange, shall establish and maintain procedures and internal controls reasonably designed to ensure that NASDAQ Execution Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange Members in connection with the provision of inbound routing to the

order programs on other exchanges involve specific arrangements with a broker-dealer to facilitate prompt execution. NES does not intend to charge a fee for the execution of the stock/ETF component of a Complex Order.[42] The Exchange believes that is consistent with the Act for such an arrangement to involve one broker-dealer, even one that is an affiliate, particularly to offer the aforementioned benefits of a prompt, electronic execution for Complex Orders involving stock/ETFs. Specifically, offering a seamless, automatic execution for both the options and stock/ETF components of a Complex Order is an important feature that should promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system by deeply enhancing the sort of complex order processing available on options exchanges today. Nevertheless, Members could, in lieu of this proposed arrangement with NES, choose, instead, the following alternatives: (i) avoid using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[43]

In line with the proposed amendments, the Exchange proposes to remove language within Supplementary Material .02 of Options 3, Section 14 which states,

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Exchange.

[42] However, Trade Reporting Facility and clearing fees, not charged by MRX or NES, may result. National Securities Clearing Corporation ("NSCC") and ACT will bill firms directly for their use of the NSCC and ACT systems, respectively. To the extent that NES is billed by NSCC or ACT, it will not pass through such fees to firms for the stock/ETF portion of a Complex Order under this proposal. MRX's fees applicable to Complex Orders appear in its Fee Schedule and may change from time to time.

[43] Existing Complex Order mechanisms at Cboe, Inc. ("Cboe") offers a similar end result. See Cboe 5.33(l).

> Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed.

As noted herein, Members will no longer be able to indicate preferred execution brokers which makes the first sentence within Supplementary Material .02 of Options 3, Section 14 unnecessary. The second sentence within Supplementary Material .02 of Options 3, Section 14 is being removed because the Exchange is replacing this rule text with proposed Options 3, Section 16(d) and (e) which describes price checks that will be performed for Stock-Option Orders or Stock-Complex Orders by NES. The third sentence within Supplementary Material .02 of Options 3, Section 14 is being removed because the Exchange's proposal to replace the third-party broker with NES will remove a delay that currently exists in the workflow to process a Stock-Option Order or Stock-Complex Order. NES will perform the stock leg validations proposed in Options 3, Sections 16(d) and (e) for Stock-Option Orders or Stock-Complex Orders. Thereafter, NES would print the stock components onto the Trade Reporting Facility and MRX would print the option component executions. This new workflow in which the stock or ETF component of the order will be routed to NES for execution instead of a third-party broker-dealer will obviate the possibility that the stock execution venue will be unavailable for trading while the order is being processed because MRX would no longer be reliant on a third-party broker-dealer to conduct the appropriate checks and, thereafter, relay information to MRX. With the proposed change, NES, the Exchange's affiliate, would conduct the necessary price checks and would make Stock-Option Orders or Stock-Complex Orders available to MRX in the same way that it does for Phlx. The Exchange believes that this new workflow would increase the efficiency of the entire transaction, including stock component validation and reporting.

Complex Opening Process

Similarly, the Exchange proposes to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14 instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14. Similar to the discussion above, the applicable price checks for the stock/ETF component of a Stock-Option Strategy and Stock-Complex Strategy were being performed by a third-party broker-dealer before the migration, which caused a delay that prevented these strategies from participating in the Complex Opening Process. With the proposed change to utilize NES in lieu of a third-party broker-dealer, Stock-Option Strategies and Stock-Complex Strategies would be able to participate in the Complex Opening Process because there would be no delay as NES, the Exchange's affiliate, would conduct the necessary checks (i.e., the price checks Options 3, Section 16(d) and (e)). Thereafter, NES would make Stock-Option Order or Stock-Complex Order available to participate in the Complex Opening Process.

For example, assume that an underlying equity is in a Regulation SHO State, the underlying equity component is open on the primary underlying market, and the following strategy is created prior to the option leg being opened on MRX:

- Assume Stock Option Strategy: Buy 8 puts and buy 100 shares
- Stock Leg NBBO: 50.00 x 50.20
- Option leg opens on MRX and the NBBO is 2.00 x 2.10
- Stock-Option Strategy derived NBBO: 16.50 x 16.75[44]
- Firm A Customer Stock-Option Order to buy 5 strategies for 16.50 arrives
- Firm B Stock-Option Order to buy 5 strategies for 16.50 arrives
- Firm C Stock-Option Order to sell 7 strategies for 16.50 arrives with instructions to short the stock component
- Firm D Stock-Option Order to sell 3 strategies for 16.50 arrives with instructions to Sell the Stock component

In the above scenario, only Firm A (buying 5 strategies) and Firm D (not shorting 3 strategies) can actually trade at the Opening Price despite it appearing there is a fully matched cross. Firm C (selling 7 strategies) cannot trade because the underlying is in a Regulation SHO state and the only price the stock leg can be matched at, is on the National Best Bid, which is not a permissible price to short sell for an underlying in a Regulation SHO state.

Prior to the migration, MRX did not attempt to match Stock-Option Orders and Stock-Complex Orders during the Complex Opening Price Determination because the Exchange could not ensure that all parties in the cross would be able to match at the proposed stock leg price because the checks were performed by a third party. If the third party was unable to match part of the cross, executions on the options components would

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44 The derived NBBO for the Stock Option Strategy was calculated as follows: Stock Option Strategy Derived Bid = ¼(2.00 x 8) + ¼(50) = 16.50 and Stock Option Strategy Derived Offer = ¼(2.10 x 8) + ¼(50.20) = 16.75. The Stock Option Strategy is normalized by MRX's System by dividing the legs by the greatest common denominator of four (4). The normalized ratio was applied to the option leg price and stock leg price to determine the net price strategy.

need to be busted, therefore the Exchange did not consider Stock-Option Orders and Stock-Complex Orders in the Complex Opening prior to the migration.

With this proposal, the price checks would be conducted by NES, an affiliate of the Exchange. Once MRX determines the stock and option leg prices, MRX will communicate the stock price and quantity to NES, who will conduct the necessary price checks. The proposed workflow provides efficiencies for the stock component execution as compared to the current process which involves a third-party broker-dealer. With this process, MRX would be able to process the option component and match the strategies during the Complex Opening Price Determination without the need for MRX to await a response from a third-party broker-dealer.

The ability to attempt this match opportunity earlier in the Complex Opening Price Determination is critical because the market can move between the Complex Opening Price Determination and the Complex Uncrossing Process[45] in such a way that the trade could no longer be possible. By way of example, prior to the migration, if the Stock Component adjusts to 53.00 x 54.00 before this strategy can attempt a Complex Uncrossing Process, the Stock Option Strategy derived NBBO would be 17.25 x 17.70 and there would no longer be a match possible for the interest willing to buy and sell at 16.50. If the System instead had utilized the Opening Price Determination, the execution would have occurred in this instance.

Trade Value Allowance

Trade Value Allowance is a functionality that allows Stock-Option Strategies and Stock-Complex Strategies to trade outside of their expected notional trade value by a

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45 See Supplementary Material .06 to MRX Options 3, Section 14.

specified amount (the "Trade Value Allowance").[46] After calculating the appropriate options match price for a Stock-Option or Stock-Complex Order expressed in a valid one cent increment, the System calculates the corresponding stock match price rounded to the increment supported by the equity market.

The Exchange no longer desires to offer the Trade Value Allowance. The Exchange has issued an Options Trader Alert indicating its intent to decommission this functionality to provide notice to Members.[47] Very few Members have opted to utilize the Trade Value Allowance and even a smaller percentage of trades were subject to the allowance. Phlx does not have a similar allowance today. In an effort to harmonize its complex order functionality across its Nasdaq affiliated markets, the Exchange proposes to no longer offer the Trade Value Allowance functionality. With the proposed change to utilize NES, the Exchange would determine the stock leg prices, and NES would be able to execute the stock leg at two different prices to ensure that the net price of the execution is within the notional value of the original order, thus eliminating the need for the allowance.

Options 3, Section 7

The Exchange proposes to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols. The Exchange proposes to amend MRX Options 3, Section 7(t) related to QCC with Stock Orders to make clear that QCC

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46 The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. See Supplementary Material .03 of MRX Options 3, Section 14.

47 See Options Trader Alert # 2023-3. No Member has expressed concern with this functionality being eliminated.

with Stock Orders may only be entered through FIX.[48] MRX has 2 order entry protocols, FIX and OTTO.[49] Members are required to have an order entry protocol to enter orders onto MRX. MRX offers each Member one FIX port at no cost.[50] All Members would have the ability to enter QCC with Stock Orders. QCC with Stock Orders may not be entered through OTTO.

Additionally, the Exchange proposes to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders. The Exchange proposes to specifically amend Supplementary Material .02(d)(3) to Options 3, Section 7 to add QCC with Stock Orders and Complex QCC with Stock to the list of order types that have a Time in Force or "TIF" of Immediate-or-Cancel or "IOC". Because QCC with Stock Orders and Complex QCC with Stock have a TIF of IOC, these order types will either execute on entry or cancel. Adding these order types to Supplementary Material .02(d)(3) to Options 3, Section 7 will make this clear.

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

49 "Ouch to Trade Options" or "OTTO" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages. See Supplementary Material .03(b) to Options 3, Section 7.

50 See Options 7, Section 6, Ports and Other Services.

Options 3, Section 12

The Exchange proposes to amend Options 3, Section 12(e)(4) to clarify the manner in which a Member may submit a QCC with Stock Order.[51] Today, Options 3, Section 12(e)(4) provides that, "QCC with Stock Orders can be entered with separate prices for the stock and options components, or with a net price for both." The Exchange proposes to amend this rule text to instead reflect the current manner in which QCC with Stock Orders may be entered into MRX's System. The proposed rule text would provide, "QCC with Stock Orders must be entered with a net price for the stock and options components through FIX. The System will calculate the individual component prices." The current language of Options 3, Section 12(e)(4) is not correct. The Exchange proposes to amend this language to make clear the current System functionality. The proposed language does not result in a change to the Exchange's System. As noted above, QCC with Stock Orders may not be entered through OTTO. The Exchange notes that requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which currently requires Members to enter QCC Orders through FIX. Additionally, the Exchange is specifying the System calculates the individual component prices.

Options 3, Section 15

The Exchange proposes to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language that would apply as a result of the proposed changes to stock-tied functionality.

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51 QCC with Stock Orders are processed in accordance with Options 3, Section 12(e).

Today, the Exchange offers a Market Wide Risk Protection which is comprised of an "Order Entry Rate Protection" which protects Members against entering orders at a rate that exceeds predefined thresholds, and an "Order Execution Rate Protection," which protects Members against executing orders at a rate that exceeds their predefined risk settings. Both of these risk protections are detailed in the "Market Wide Risk Protection." Today, pursuant to the proposed Market Wide Risk Protection rule, the Exchange's System maintains one or more counting programs for each Member that count orders entered and contracts traded on MRX. Members can use multiple counting programs to separate risk protections for different groups established within the Member.

MRX Options 3, Section 15(a)(1)(C) currently states, that the counting programs will maintain separate counts, over rolling time periods specified by the Member for each count of: (1) the total number of orders entered; (2) the total number of contracts traded. The Exchange proposes to amend MRX Options 3, Section 15(a)(1)(C) to instead provide,

> [t]he counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of orders entered in the complex order book with only options legs; (3) the total number of Stock-Option Orders and Stock-Complex Orders entered in the complex order book with both stock and options legs ; (4) the total number of contracts traded in regular orders; (5) the total number of contracts traded in complex orders with only options legs; and (6) the total number of Stock-Option Order and Stock-Complex Order contracts traded in complex orders with both stock and option legs).

Today, the counting programs maintain separate counts over rolling time period for the total number of orders entered in the regular order book, complex order book with only options legs; and the complex order book with both stock and options legs. Additionally, the risk protection counts the total number of contracts traded in regular orders and

Complex Orders with only options legs.[52] The current rule text does not provide for each of these counts today.

The Exchange proposes a technical amendment to the first provision of MRX Options 3, Section 15(a)(1)(C) to add "in the regular order book" to the sentence to distinguish the single-leg order book from the complex order book.

At the time that MRX adopted Complex Order rules, those rules were intended to be identical to Nasdaq ISE, LLC ("ISE") complex order rules.[53] MRX should have amended MRX Options 3, Section 15(a)(1)(C) to include the rule text within (2) through (5), as noted above, to mirror the rules of ISE Options 3, Section 15(a)(1)(C) as it pertains to Complex Orders. The Exchange proposes to mirror the rules of ISE Options 3, Section 15(a)(1)(C) within (2) through (5) except that the rules will use the defined terms Stock-Option Order, Stock-Complex Order, and Complex Option Order.[54] The Exchange notes that the stock portion of QCC Orders, Complex Qualified QCC Orders, QCC with Stock Orders, and Complex QCC with Stock Orders are not counted in (3) because MRX's System does not handle the stock portion of these orders. MRX would not represent the stock leg through NES as it would for other Stock-Option Orders and Stock-Complex Orders as described herein. The Exchange inadvertently did not amend

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52 The Member's allowable order rate for the Order Entry Rate Protection is comprised of the parameters defined in (1) to (3), while the allowable contract execution rate for the Order Execution Rate Protection is comprised of the parameters defined in (4) and (5).

53 See Securities Exchange Act Release No. 86326 (July 8, 2019), 84 FR 33300 (July 12, 2019) (SR-MRX-2019014) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Adopt Complex Order Pricing).

54 A similar change will be made to ISE to utilize the defined terms "Stock-Option Order," "Stock-Complex Order" and "Complex Option Order."

its rules similar to ISE today. Today, the Market Wide Risk Protection includes Complex Orders, where applicable. At this time, MRX proposes to mirror ISE's rules related to the counting functionality for Complex Orders to reflect the manner in which the System operates. The Exchange notes that QCC Orders, Complex Qualified QCC Orders, QCC with Stock Orders, and Complex QCC with Stock Orders are considered, where applicable, in Options 3, Section 15(a)(1)(C)(1), (2), (4) and (5).

Today, the Exchange does not include a complex execution count for Complex Orders with a stock component as the execution counts maintained by the Order Execution Rate Protection are based solely on options contracts traded. At this time, as a result of amending the stock-tied functionality, the Exchange proposes to add a new number (6) to MRX Options 3, Section 15(a)(1)(C) to note that the counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of the total number of Stock-Option Order and Stock-Complex Order contracts traded in Complex Order with both stock and option legs. The Exchange is adding new number (6) because it is introducing NES in place of a third-party broker-dealer. As a result, the Exchange will guarantee a stock-tied execution. Before the migration, the stock-tied execution was not guaranteed by the third-party broker-dealer. Because of the ability to guarantee the execution, the Exchange is amending Options 3, Section 15(a)(1)(C) to add (6) to the list of contracts counted by the Market Wide Risk Protection because the Exchange is able to perform the risk check since NES will be handling the stock for Stock-Option Orders and Stock-Complex Orders. This risk protection will reduce risk associated with system errors or market events that may cause Members to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Without adequate risk management tools, such as those proposed in this filing, Members could reduce the amount of order flow and liquidity that they provide on MRX. As a result, the functionality promotes just and equitable principles of trade.

Finally, the Exchange proposes to add the defined term "DNTT" to the end of Options 3, Section 16(a) to define the instruction on a Complex Order to price each leg of the Complex Order to be executed equal to or better than the NBBO for the options series or any stock component, as applicable as a "Do-Not-Trade-Through" or "DNTT." This is not a substantive amendment, rather this change is meant to assist Members in locating this functionality within MRX's rules.

Implementation

The Exchange will issue an Options Trader Alert to Members to provide notification of the implementation date for MRX's Delayed Functionalities, except Trade Value Allowance. MRX will announce the day it will recommence the Delayed Functionalities, except Trade Value Allowance, before November 7, 2023, which is one year from the day MRX's technology migration commenced. Separately, MRX informed Members that it will not recommence the Trade Value Allowance functionality in a separate Options Trader Alert.[55] As discussed above, the Trade Value Allowance will no longer be necessary.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

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[55] See supra note 12.

Act,[56] in general, and furthers the objectives of Section 6(b)(5) of the Act,[57] in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest for the reasons discussed below.

<u>Re-Introduction of Stock-Related Strategies and Elimination of Trade Value Allowance</u>

Stock-Tied Functionality

The Exchange's proposal to amend its stock-tied functionality that the Exchange used prior to the technology migration and recommence offering this functionality as described above promotes just and equitable principles of trade and removes impediments to and perfect the mechanism of a free and open market and a national market system because it will permit the Exchange to streamline its stock-tied processes as discussed more fully below. Further, the amendments to require that a Member desiring to execute an order with stock or an ETF component enter into a brokerage agreement with NES, a broker-dealer owned and operated by Nasdaq, Inc., protects investors and the general public because Members will be required to comply with NES' requirements and those requirements will be uniform for all MRX Members.

The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report stock-tied functionality with two differences.

First, while both Phlx and MRX have certain risk protections for complex orders, they differ. With respect to MRX, the execution price of the Complex Order must be within a certain price from the current market, as determined by the Exchange pursuant to

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56 15 U.S.C. 78f(b).

57 15 U.S.C. 78f(b)(5).

Options 3, Section 16(a). Specifically, today, MRX Options 3, Section 16(a) provides that the System will not permit any leg of a complex strategy to trade-through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. Phlx Options 3, Section 16(b)(i) describes Phlx's ACE Parameter which defines a price range outside of which a complex order will not be executed. On Phlx, a complex order to sell is not executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. Conversely, on Phlx, a complex order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. While MRX's and Phlx's price checks differ, both markets seek to prevent executions from occurring at certain prices and at certain percentages from the NBBO. The Exchange believes that this proposal promotes just and equitable principles of trade because NES would apply the same price check for stock-tied functionality that was being applied previously by a third party that executed the stock or ETF component of a complex strategy on behalf of MRX Members. Additionally, MRX Members would continue to be subject to the same price check which is applied to all Complex Orders executed on MRX.

Second, MRX and Phlx differ with respect to the manner in which their systems handle Stock-Option Strategies and Stock-Complex Strategies that would execute against interest on the Complex Order Book at a price that do not meet price checks as provided for in proposed Options 3, Section 16(d)[58] or do not meet Regulation SHO provisions as

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58 As proposed, the execution price of Stock-Option Strategies and Stock-Complex Strategies must be within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the

provided for in proposed Options 3, Section 16(e)[59] are handled by their respective systems. As proposed, MRX will hold orders on the Complex Order book that cannot be executed because of Regulation SHO or price check restrictions, unless the Member requests the order to be cancelled. If an MRX Member elects to have the order held on the Complex Order Book, the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. The Exchange believes that this proposal promotes just and equitable principles of trade because MRX's proposed approach would provide the Member with optionality as to the handing of the order. The Exchange believes providing the choice to have the order held on the Complex Order Book provides Members with an opportunity for an execution.

NES, an affiliate of the Exchange and a registered broker-dealer, has been approved by the Commission to become a Member of the Exchange and perform inbound routing on behalf of the Exchange.[60] Additionally, NES is permitted to route outbound orders either directly or indirectly through a third party routing broker-dealer to other market centers and perform other functions regarding the cancellation of orders and the maintenance of a NES error account.[61] The functions performed by NES on Phlx today are identical to the functions that MRX proposes for NES to perform for MRX

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current market pursuant to Options 3, Section 16(a), as determined by the Exchange.

59 See supra note 22.

60 See supra note 16.

61 See supra note 17.

Members.[62] Identical to Phlx, after MRX's System determines that a Complex Order is possible and identifies the prices for each component of such Complex Order, MRX will electronically communicate the stock or ETF component of the Complex Order to NES for execution.[63]

NES, acting as agent for the orders to buy and sell the underlying stock or ETF, will execute the orders in the OTC market and will handle the orders pursuant to applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs, and short sales. Before the migration, this function was performed by a third-party broker-dealer that executed the stock or ETF component of a complex strategy on behalf of MRX Members. As proposed, this structure will promote just and equitable principles of trade because NES will be responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a

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62 See Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011) (SR-Phlx-2010-157) (Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, Relating to Complex Orders) ("Phlx Complex Order Approval"). NES assumed the stock execution functionalities that were previously performed by NOS. Phlx subsequently filed to permit both inbound and outbound orders to be routed through NES instead of Nasdaq Options Services LLC ("NOS"). See Securities Exchange Act Release No. 71417 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-Phlx-2014-04) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Outbound Routing) and 71416 (January 28, 2014), 79 FR 6244 (February 3, 2014) (SR-Phlx-2014-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Inbound Routing of Options Orders).

63 See proposed Supplementary Material .08(b) to Options 3, Section 11, proposed Options 3, Section 12(b)(2), proposed Supplementary Material .09(b) to Options 3, Section 13, proposed Supplementary Material .02 to Options 3, Section 14 and proposed Options 3, Section 16(d). See also Phlx Options 3, Section 13(b)(10)(ii), Options 3, Section 16(b).

Complex Order.[64] Furthermore, today, NES is responsible for compliance with FINRA rules generally and is subject to examination by FINRA.[65] Finally, today, NES has in place policies related to confidentiality and the potential for informational advantages relating to its affiliates, intended to protect against the misuse of material nonpublic information.[66] In particular, NES will have in place policies and procedures designed to prevent the misuse of material non-public information related to stock-tied executions which will protect investors and the public interest. NES only receives information about the stock or ETF portion of the order from the Exchange. As mentioned herein, today, NES is responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order on Phlx. MRX will adopt identical policies and procedures for its stock-tied functionality as are in place on Phlx today.

In addition, the execution and reporting of the stock/ETF piece will occur otherwise than on MRX or any other exchange, and will be handled by NES pursuant to applicable rules regarding equity trading,[67] including the rules governing trade reporting, trade-throughs and short sales. The Exchange's proposal also promotes just and equitable principles of trade as NES will report the trades to the Trade Reporting

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64 See supra note 23.

65 NES is subject to FINRA Rule 3110, which generally requires that the policies and procedures and supervisory systems be reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules, including those relating to the misuse of material non-public information.

66 See supra note 24.

67 See supra note 25.

Facility.[68] Further, all MRX Members may execute stock-tied transactions. All stock-tied transactions will have the stock/ETF component of a Complex Order, once executed, properly processed for trade reporting purposes. Phlx has identical rules for processing and reporting.[69]

With respect to trade-throughs, the Exchange believes that the stock/ETF component of a Complex Order is eligible for the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. The Exchange believes that the stock/ETF portion of a Complex Order under this proposal complies with all six requirements of the Qualified Contingent Trade Exemption.[70] In order to promote just and equitable

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68 See supra note 26.

69 See Phlx Options 3, Sections 13(b)(10) and 14(a)(i).

70 The six requirements include: (1) At least one component order is in an NMS stock: The stock/ETF component must be an NMS stock, which is validated by the System; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent: A Complex Order, by definition consists of a single net/debit price and this price contingency applies to all the components of the order, such that the stock price computed and sent to NES allows the stock/ETF order to be executed at the proper net debit/credit price based on the execution price of each of the option legs, which is determined by the MRX System; (3) the execution of one component is contingent upon the execution of all other components at or near the same time: Once a Complex Order is accepted and validated by the System, the entire package is processed as a single transaction and each of the option leg and stock/ETF components are simultaneously processed; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed: Complex Orders, upon entry, must have a size for each component and a net debit/credit, which the System validates and processes to determine the ratio between the components; an order is rejected if the net debit/credit price and size are not provided on the order; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled: under this proposal, the stock/ETF component must be the underlying security respecting

principles of trade, MRX's System will validate compliance with each requirement such that any matched order received by NES under this proposal has been checked for compliance with the exemption. Members may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption.[71] Members submitting such Complex Orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Thus, the Exchange believes that Complex Orders consisting of a stock/ETF component will comply with the exemption and that MRX's System will validate such compliance to assist NES in carrying out its responsibilities as agent for these orders.

With respect to short sale regulation, the proposed handling of the stock/ETF component of a Complex Order under this proposal should not raise any issues of compliance with the currently operative provisions of Regulation SHO[72] and therefore promote just and equitable principles of trade. When a Complex Order has a stock/ETF component, Members must indicate, pursuant to Regulation SHO, whether that order involves a long or short sale. The System will accept Complex Orders with a stock/ETF component marked to reflect either a long or short position; specifically, orders not marked as buy, sell or sell short will be rejected by MRX's System.[73] The System will

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the option legs, which is validated by the System; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade: Under this proposal, the ratio between the options and stock/ETF must be a conforming ratio (8 contracts per 100 shares), which the System validates, and which under reasonable risk valuation methodologies, means that the stock/ETF position is fully hedged.

71 See Supplementary Material .07 to Options 3, Section 14.

72 17 CFR 242.200 *et seq*.

73 The Exchange also accept short sell exempt orders as described herein.

electronically deliver the stock/ETF component to NES for execution. Simultaneous to the options execution on MRX's System, NES will execute and report the stock/ETF component, which will contain the long or short indication as it was delivered by the Member to MRX's System. Accordingly, NES, as a trading center under Rule 201, will be compliant with the requirements of Regulation SHO. Of course, broker-dealers, including both NES and the Members submitting orders to MRX with a stock/ETF component, must comply with Regulation SHO. NES' compliance team updates, reviews and monitors NES' policies and procedures including those pertaining to Regulation SHO on an annual basis.

Further, proposed Options 3, Section 16(e) provides that when the short sale price test in Rule 201 of Regulation SHO[74] is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order Book, if consistent with Member instructions (Members may always elect to cancel the order).[75] The order may execute at a price that is not equal to or below the current

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74 See supra note 32.

75 See proposed Options 3, Section 16(e). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and

national best bid. This proposed rule is similar to Phlx Options 3, Section 16(b) except that unlike Phlx, MRX will not cancel back the Complex Order to the entering Member unless the Member requests that the order be cancelled back.

For these reasons, the processing of the stock/ETF component of a Complex Order under this proposal will comply with applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs and short sales and is consistent with the Act. NES's responsibilities respecting these equity trading rules will be documented in NES's written policies and procedures. NES' compliance team updates, reviews and monitors NES' policies and procedures. NES is regulated by FINRA and as such, NES policies and procedures are subject to review and examinations by FINRA.

Further, as part of the execution of the stock/ETF component, the Exchange will ensure that the execution price is within the intra-day high-low range for the day in that stock at the time the Complex Order is processed and within a certain price range from the current market pursuant to Options 3, Section 16(a) which will protect investors and the general public.[76] If the stock price is not within these parameters, the Complex Order is not executable and would be held on the order book or cancelled, consistent with Member instructions.[77] Before the migration of MRX to enhanced technology platform when the Exchange was offering stock-tied functionality, the third-party broker-dealer

Supplementary Material .09 to Options 3, Section 13.

76 See supra note 37.

77 Similar to other order types, the Member may elect to enter the order as an Immediate-or-Cancel to avoid resting on the order book or as Day order which could rest on the order book.

would ensure the execution price was within the intra-day high-low range. With the transition to NES, the Exchange would commence performing this check. Members who transact stock-tied functionality on MRX would therefore continue to be subject to the same execution price check with NES as they were before the migration. This intra-day high-low range check does not occur for certain Complex Orders auctions (e.g. Complex PIM Orders,[78] Complex Facilitation Orders[79] and Complex SOM Orders[80]) and also does not occur for Complex Customer Cross Orders[81] or Complex QCC Orders.[82] The Exchange believes that this exception for auctions is consistent with the Act because these auctions have their own rules for auction eligibility, entry checks, and offer price improvement all of which are distinguishable from execution of orders on the Complex Order Book. Complex Customer Cross Orders are automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Options

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78 A Complex PIM Order is an order entered into the Complex Price Improvement Mechanism as described in Options 3, Section 13(e). See MRX Options 3, Section 14(b)(18).

79 A Complex Facilitation Order is an order entered into the Complex Facilitation Mechanism as described in Options 3, Section 11(c). See MRX Options 3, Section 14(b)(16).

80 A Complex SOM Order is an order entered into the Complex Solicited Order Mechanism as described in Options 3, Section 11(e). See MRX Options 3, Section 14(b)(17).

81 See Options 3, Section 12(b).

82 See Options 3, Section 12(d).

3, Section 14(c)(2). Complex Customer Cross Orders will be rejected if they cannot be executed.[83]

Finally, the Exchange also believes that it is appropriate to construct a program wherein its affiliate, NES, is the exclusive conduit for the execution of the stock/ETF component of a Complex Order under this proposal, identical to Phlx.[84] As a practical matter, complex order programs on other exchanges involve specific arrangements with a broker-dealer to facilitate prompt execution. NES does not intend to charge a fee for the execution of the stock/ETF component of a Complex Order.[85] The Exchange believes that is consistent with the Act for such an arrangement to involve one broker-dealer, even one that is an affiliate, particularly to offer the aforementioned benefits of a prompt, electronic execution for Complex Orders involving stock/ETFs. Specifically, offering a seamless, automatic execution for both the options and stock/ETF components of a Complex Order is an important feature that should promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system by deeply enhancing the sort of complex order processing available on options exchanges today. Nevertheless, Members could, in lieu of this proposed arrangement with NES, choose, instead, the following alternatives: (i) avoid

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83 Supplementary Material .01 to Options 3, Section 22 applies to Complex Customer Cross Orders.

84 See supra note 41. See proposed Supplementary Material .02 to MRX Options 3, Section 14. In addition to amending Supplementary Material .02 to MRX Options 3, Section 14 to require Members to enter into a brokerage agreement, the Exchange proposes to make conforming changes to Supplementary Material .02 to MRX Options 3, Section 14 to delete provisions that allow Members to enter into a brokerage agreement with one or more brokers to route stock orders.

85 See supra note 42.

using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[86]

The Exchange's proposal to remove the second and third sentences within Supplementary Material .02 of Options 3, Section 14[87] is consistent with the Act in that it protects investors and the general public because this new workflow in which the stock or ETF component of the order will be routed to NES for execution instead of a third-party broker-dealer will obviate the possibility that the stock execution venue will be unavailable for trading while the order is being processed because of the efficiency created in executing the entire transaction, including stock component validation and reporting, without the need for MRX to utilize a third-party broker-dealer and await a response from the third-party broker-dealer. MRX would no longer be reliant on a third-party broker-dealer to conduct the appropriate checks and, thereafter, relay information to MRX. With the proposed change, NES, the Exchange's affiliate, would conduct the necessary checks and thereafter the Stock-Option Order or Stock-Complex Order would be available for execution. Proposed Options 3, Sections 16(d) and (e) describe the System price checks that will be performed for Stock-Option Orders or Stock-Complex

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86 See supra note 43.

87 The second and third sentences of Supplementary Material .02 of MRX Options 3, Section 14 states, "A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed."

Orders by NES.

Similarly, the Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14, is consistent with the Act. Similar to the discussion above, previously the applicable checks for the stock/ETF component of a Stock-Option Strategy and Stock-Complex Strategy were being performed by a third-party broker-dealer before the migration, which caused a delay that prevented these strategies from participating in the Complex Opening Process. With the proposed change to utilize NES, in lieu of a third-party broker-dealer, Stock-Option Strategies and Stock-Complex Strategies would be able to participate in the Complex Opening Process as NES, the Exchange's affiliate, would conduct the necessary price checks and would be able to make Stock-Option Order or Stock-Complex Order available to participate in the Complex Opening Process without the need for MRX to await a response from a third-party broker-dealer. This amendment is consistent with the Act as it serves to protect investors and the general public by improving the Exchange's processes to make Stock-Option Strategies and Stock-Complex Strategies subject to the Complex Opening Price Determination similar to other order types. The Complex Opening Process seeks to maximize the interest which is traded during the Complex Opening Price Determination process and deliver a rational price for the available interest at the opening. The Complex Opening Price Determination process maximizes the number of contracts executed during the Complex Opening Process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the Opening Price.

Trade Value Allowance

The Exchange's proposal to no longer offer Trade Value Allowance is consistent with the Act because very few Members have opted to utilize the Trade Value Allowance and even a smaller percentage of trades were subject to the allowance. Phlx does not have a similar allowance today. In an effort to harmonize its complex order functionality across its Nasdaq affiliated markets, the Exchange proposes to no longer offer the Trade Value Allowance functionality. In addition, the Exchange believes that this proposal removes impediments to and perfect the mechanism of a free and open market and a national market system because the proposal removes an allowance that is no longer necessary; other options exchanges, like Phlx, do not offer such an allowance. With the proposed change to utilize NES, the Exchange would be able to determine stock leg prices, and NES would be able to execute the stock leg at two different prices to ensure that the net price of the execution is within the notional value of the original order, thus eliminating the need for the allowance.

<u>Options 3, Section 7</u>

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols is consistent with the Act. The Exchange proposes to amend MRX Options 3, Section 7(t) related to QCC with Stock Orders to make clear that QCC with Stock Orders may only be entered through FIX. MRX has 2 order entry protocols, FIX and OTTO. QCC with Stock Orders may not be entered through OTTO. Members are required to have an order entry protocol to enter orders onto MRX.[88] The Exchange's proposal to add rule text to Options 3, Section 7(t) will clarify the functionality, thereby protecting investors and the general public.

Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders is consistent with the Act. The Exchange proposes to specifically amend Supplementary Material .02(d)(3) to Options 3, Section 7 to add QCC with Stock Orders and Complex QCC with Stock to the list of order types that have a Time in Force or "TIF" of Immediate-or-Cancel or "IOC." Because QCC with Stock Orders and Complex QCC with Stock have a TIF of IOC, these order types will execute either execute on entry or cancel. This amendment will make clear the manner in which the aforementioned order types trade, thereby protecting investors and the general public.

Options 3, Section 12

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and that the System will perform the calculation is consistent with the Act because the amended rule text makes clear the format in which these orders may be submitted to the System. Today, the Exchange does not allow FIX to accept QCC with Stock Orders with separate prices for the stock and options components. Each exchange may specify the manner in which certain order types may be submitted to an exchange and the format for submitting those orders. The proposal protects investors and the general public by clarifying the manner in which

88 MRX offers each Member one FIX port at no cost. See Options 7, Section 6.

Members may submit QCC with Stock Orders. The proposed language does not result in a change to the Exchange's System. As noted above, QCC with Stock Orders may not be entered through OTTO. The Exchange notes that requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which requires Members to enter QCC Orders through FIX.

Options 3, Section 15

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language that would apply as a result of the proposed changes to stock-tied functionality is consistent with the Act. The first provision, the total number of orders entered is being amended to simply add "in the regular order book" to distinguish the single-leg order book from the complex order book. This amendment is non-substantive and would serve to clarify which order book is impacted.

The proposed changes to MRX Options 3, Section 15(a)(1)(C) protect investors and the public interest by clearly describing the operation of the Market Wide Risk Protection. As discussed above, the functionality of proposed MRX Options 3, Section 15(a)(1)(C)(2) through (5) is consistent with functionality that currently exists on ISE.[89] Proposed MRX Options 3, Section 15(a)(1)(C)(6) adds the total number of contracts traded in Stock-Option Orders and Stock-Complex Orders to the Market Wide Risk Protection. This change protects investors and the general public because this risk protection by expanding the scope of the Market Wide Risk Protection to include

89 See ISE Options 3, Section 15(a)(1)(C)(2) through (5).

additional contracts which will reduce risk associated with system errors or market events that may cause Members to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. The Exchange notes that QCC Orders, Complex Qualified QCC Orders, QCC with Stock Orders, and Complex QCC with Stock Orders are considered, where applicable, in Options 3, Section 15(a)(1)(C)(1), (2), (4) and (5). Members will continue to be provided with the flexibility needed to appropriately tailor the Market Wide Risk Protection to their respective risk management needs.

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.

Re-Introduction of Stock-Related Strategies and Elimination of Trade Value Allowance

Stock-Tied Functionality

The Exchange's proposal to amend its stock-tied functionality and recommence offering this functionality does not impose an intra-market undue burden on competition as all Members may utilize the stock-tied functionality and would be uniformly subject to the requirements associated with executing a stock-tied transaction. Also, in lieu of this proposed arrangement with NES, Members could choose, instead, the following alternatives: (i) avoid using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[90] The Exchange's proposal to amend its stock-tied

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90 See supra note 43.

functionality and recommence offering this functionality does not impose an inter-market undue burden on competition as other options exchanges today may offer a similar process for handling stock-tied transactions. Today, Phlx offers an identical process for handling stock-tied transactions.[91]

The Exchange's proposal to remove rule text from Options 3, Section 14 that states, "When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed," does not impose an undue burden on intra-market competition because the proposed new functionality will apply equally to all Members transacting Complex Orders on MRX. All Stock-Option Orders and Stock-Complex Orders will be handled in the same manner by the System. The Exchange's proposal to remove rule text from Options 3, Section 14 does not impose an undue burden on inter-market competition as the scope of this change is limited to MRX and its relationship with a broker-dealer handling the stock component of the order.

The Exchange's proposal to remove the rule text within Supplementary Material .02 of Options 3, Section 14[92] does not impose an undue burden on intra-market

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91 See Phlx Options 3, Sections 13(b)(10) and 14(a)(i).

92 Supplementary Material .02 of Options 3, Section 14 states that, "Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option

competition because all Members will have the ability to use the new workflow in which the stock or ETF component of the order will be routed to NES for execution instead of a third-party broker-dealer. The proposed new functionality will apply equally to all Members transacting Complex Orders on MRX. All Stock-Option Orders and Stock-Complex Orders will be handled in the same manner by the System. Additionally, this proposed amendment will not impose an undue burden on inter-market competition because all market participants that direct orders to MRX will have their orders handled in a similar manner. The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report the stock or ETF component of a Complex Order.

Similarly, the Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14, does not impose an undue burden on intra-market competition because all Stock-Option Strategies and Stock-Complex Strategies will be subject to the same process. All Stock-Option Orders and Stock-Complex Orders will be transacted in the Complex Opening by the System. The Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary

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Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed."

Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14 does not impose an undue burden on inter-market competition because other options markets may also elect to permit similar order types to trade in their complex opening process.

Trade Value Allowance

The Exchange's proposal to no longer offer Trade Value Allowance does not impose an undue burden on intra-market competition because no Member would be able to utilize the Trade Value Allowance. The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report the stock or ETF component of a Complex Order.

The Exchange's proposal to no longer offer Trade Value Allowance does not impose an undue burden on inter-market competition because other options exchanges could choose to offer a similar functionality.

<u>Options 3, Section 7</u>

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols does not impose an undue burden on intra-market competition because all Members may enter QCC with Stock Orders through FIX and the Exchange provides each Member with one FIX Port at no cost.

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols does not impose an undue burden on inter-market competition because other options exchanges may also create order entry protocols for their markets.

Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to

Options 3, Section 7 to add QCC with Stock Orders and Complex QCC with Stock to the list of order types that have a Time in Force or "TIF" of Immediate-or-Cancel or "IOC" does not impose an undue burden on intra-market competition because this amendment reflects the description of these particular order types which will either execute on entry or cancel. All QCC with Stock Orders and Complex QCC with Stock that are entered on MRX will be handled in the same manner. Further, all Members may trade QCC with Stock Orders and Complex QCC with Stock Orders. Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders does not impose an undue burden on inter-market competition because other options markets may adopt a similar requirement for such orders.

Options 3, Section 12

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and the System will calculate the individual component prices does not impose an intra-market burden on competition because all Members are required to uniformly submit QCC with Stock Orders in this fashion.

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and the System will calculate the individual component prices does not impose an inter-market burden on competition because each exchange may specify the manner in which certain order types may be submitted to an exchange and the format for submitting those orders. Also, requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which requires Members to enter QCC Orders through FIX.

Options 3, Section 15

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language does not impose an undue burden on intra-market competition because the counting programs within the Market Wide Risk Protections will apply equally to all Members. The proposal to amend the Market Wide Risk Protection does not impose an undue burden on inter-market competition because other options exchanges may adopt similar risk protections for their members.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)[93] of the Act and Rule 19b-4(f)(6) thereunder[94] in that it effects a change

[93] 15 U.S.C. 78s(b)(3)(A)(iii).

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 Exchange believes that the proposal does not significantly affect the protection of investors or the public interest. The Exchange's proposal to amend its stock-tied functionality and recommence offering this functionality utilizing NES, an affiliate of the Exchange, that has been approved by the Commission to become a Member of the Exchange and perform inbound routing on behalf of the Exchange does not significantly affect the protection of investors or the public interest because the Exchange's proposal will offer MRX's Members the same experience that Phlx's members have today (i.e. NES will perform the same functions for stock-tied functionality in executing the stock leg on behalf of Members as it currently does for Phlx). The proposed new functionality will benefit investor because it will permit stock-tied orders to be executed more efficiently as the removal of the third-party broker-dealer and insertion of NES would remove a delay that existed in the processing of these orders before the migration. Specifically, with the proposed change from a broker-dealer designated by the Exchange executing the stock/ETF component to NES executing the stock/ETF component, a Stock-Option Order or Stock-Complex Order would no longer be unavailable for trading while the order was being processed by a third-party broker-dealer who was conducting the appropriate checks and thereafter relaying information to

[94] 17 CFR 240.19b-4(f)(6).

MRX. Also, Members who transact stock-tied functionality on MRX would continue to be subject to the same execution price check with NES as they were before the migration which will protect investors. The proposed changes to allow Stock-Option Strategy and Stock-Complex Strategy to participate in the Opening Process will benefit investors because the Complex Opening Process seeks to maximize the interest which is traded during the Complex Opening Price Determination process and deliver a rational price for the available interest at the opening. The Complex Opening Price Determination process maximizes the number of contracts executed during the Complex Opening Process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the Opening Price.

Further, the proposal to eliminate the Trade Value Allowance will not significantly affect the protection of investors because it would no longer be necessary. The System will process Stock-Option or Stock-Complex Orders, allowing the Exchange to determine stock leg prices. With the proposed change, NES would be able to execute the stock leg at two different prices to ensure that the net price of the execution is within the notional value of the original order, thus eliminating the need for the allowance.

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7 to indicate that QCC with Stock Order must be entered through FIX does not significantly affect the protection of investors or the public interest because Members are required to have an order entry protocol to enter orders onto MRX.[95] The Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 to indicate that

95 MRX offers each Member one FIX port at no cost. See Options 7, Section 6.

Complex QCC with Stock must be Immediate-or-Cancel Orders will benefit investors by making clear the manner in which the aforementioned order types trade.

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and the System will perform the calculation does not significantly affect the protection of investors because requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which currently requires Members to enter QCC Orders through FIX. Additionally, the Exchange is specifying the System calculates the individual component prices.

The amendments to the Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to include (2) through (5) mirror the rules of ISE Options 3, Section 15(a)(1)(C), except that the proposed rules use the defined terms "Stock-Option Order," "Stock-Complex Order," and " Complex Options Orders". In addition, the proposal adds a new number (6) to MRX Options 3, Section 15(a)(1)(C). These changes do not significantly affect the protection of investors, rather it makes clear the manner in which the System's risk protection operates today and the handling of Complex Orders. As discussed above, this risk protection will reduce risk associated with system errors or market events that may cause Members to send a large number of orders, or receive multiple, automatic executions

The Exchange's proposal does not impose any significant burden on competition. The Exchange's proposal to amend its stock-tied functionality and recommence offering this functionality does not impose any significant burden on competition as all Members may utilize the stock-tied functionality and would be uniformly subject to the requirements associated with executing a stock-tied transaction. Also, in lieu of this proposed arrangement with NES, Members could choose, instead, the following alternatives: (i) avoid using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[96] Today, Phlx offers an identical process for handling stock-tied transactions.[97] The Exchange's proposal to remove rule text from Options 3, Section 14 that states, "When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed," does not impose any significant burden on competition. With the proposed change, a Stock-Option Order or Stock-Complex Order would no longer be unavailable for trading while the order was being processed because MRX would no longer be reliant on a third-party broker-dealer to conduct the appropriate checks and thereafter relay information to MRX. NES would conduct the necessary checks and would be able to make Stock-Option Orders or Stock-Complex Orders available without the need for MRX to await a response from a third-party. Similarly, the Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in

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96 See supra note 43.

97 See Phlx Options 3, Sections 13(b)(10) and 14(a)(i).

Supplementary Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14, does not impose any significant burden on intra-market competition because the Stock-Option Strategies and Stock-Complex Strategies of all Members will be treated in the same manner. Similar to the discussion above, the current necessary delay prevents these strategies from participating in the Complex Opening Process. With the proposed change to utilize NES, all Stock-Option Strategies and Stock-Complex Strategies would be able to participate in the Complex Opening Process as NES would conduct the necessary checks and would be able to make Stock-Option Order or Stock-Complex Order available to participate in the Complex Opening Process.

The Exchange's proposal to no longer offer Trade Value Allowance does not impose any significant burden on competition because no Member would be able to utilize the Trade Value Allowance. The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols does not impose any significant burden on competition because the proposal seeks to make clear that QCC with Stock Orders may only be entered through FIX. All Members may enter QCC with Stock Orders through FIX. Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders does not impose any significant burden on competition because this amendment will make clear the manner in which these order types trade. All Members may trade QCC with Stock Orders and Complex QCC with Stock Orders. The Exchange's proposal to no longer offer Trade Value Allowance does not impose an undue burden on inter-market competition because other options exchanges could choose to utilize a similar functionality.

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member must submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and the System will perform the calculation does not impose any significant burden on competition because all Members are required to uniformly submit QCC with Stock Orders in this fashion.

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language does not impose any significant burden on competition. The first provision, the total number of orders entered is being amended to simply add "in the regular order book" to distinguish the single-leg order book from the complex order book. This amendment is non-substantive and would serve to clarify which order book is impacted. The Exchange's proposal to amend MRX Options 3, Section 15(a)(1)(C) to include (2) through (5) to mirror the rules of ISE Options 3, Section 15(a)(1)(C), except that for the rule text within (3) the Exchange proposes to utilize the defined terms "Stock-Option Order" and "Stock-Complex Order, and add a new number (6) to MRX Options 3, Section 15(a)(1)(C) does not impose any significant burden on competition because the counting programs within the Market Wide Risk Protections will apply equally to all Members. The proposal to amend the Market Wide Risk Protection does not impose an undue burden on inter-market competition because other options exchanges may adopt similar risk protections for their members.

Furthermore, Rule 19b-4(f)(6)(iii)[98] requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

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

The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report stock-tied functionality with two differences.

First, while both Phlx and MRX have certain risk protections for complex orders, they differ. With respect to MRX, the execution price of the Complex Order must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). Specifically, today, MRX Options 3, Section 16(a) provides that the System will not permit any leg of a complex strategy to trade-through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. Phlx

98 17 CFR 240.19b-4(f)(6)(iii).

Options 3, Section 16(b)(i) describes Phlx's ACE Parameter which defines a price range outside of which a complex order will not be executed. On Phlx, a complex order to sell is not executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. Conversely, on Phlx, a complex order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. While MRX's and Phlx's price checks differ, both markets seek to prevent executions from occurring at certain prices and at certain percentages from the NBBO. With this proposal, NES would apply the same price check for stock-tied functionality that was being applied prior to the migration by a third party. MRX Members would continue to be subject to the same price check which is applied to all Complex Orders executed on MRX.

Second, MRX and Phlx differ with respect to the manner in which Stock-Option Strategies and Stock-Complex Strategies that do not meet requisite price checks as provided for in proposed Options 3, Section 16(d) or do not meet Regulation SHO provisions as provided for in proposed Options 3, Section 16(e) are handled by their respective systems. As proposed, MRX will hold orders on the Complex Order book that cannot be executed pursuant to Regulation SHO restrictions, unless the Member requests the order to be cancelled. If an MRX Member elects to have the order held, the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. MRX's proposed approach would provide the Member with optionality as to the handing of the order. The Exchange believes providing the choice to have the order held provides Members with an opportunity for an execution.

The Exchange notes this proposal is identical to ISE Options 3, Section 15(a)(1)(C) within (2) through (5), except that for the rule text within (3) the Exchange proposes to utilize the defined terms "Stock-Option Order" and "Stock-Complex Order," with respect to the amendments to the Market Wide Risk Protection.

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

Not applicable.

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

Not applicable.

11. Exhibits

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

5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-MRX-2023-10)

June __, 2023

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on June 6, 2023, 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 Options 3, Section 7, Types of Orders and Order and Quote Protocols; Options 3, Section 11, Auction Mechanisms; Options 3, Section 12, Crossing Orders, Section 13, Price Improvement Mechanisms for Crossing Transactions; Options 3, Section 14, Complex Orders; Options 3, Section 15, Simple Order Risk Protections; and Options 3, Section 16, Complex Order Risk Protections.

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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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

In connection with a technology migration to an enhanced Nasdaq, Inc. ("Nasdaq") functionality, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq affiliate exchanges. Also, the Exchange intends to remove certain functionality. Specifically, the following sections would be amended: Options 3, Section 7, Types of Orders and Order and Quote Protocols; Options 3, Section 11, Auction Mechanisms; Options 3, Section 12, Crossing Orders, Section 13, Price Improvement Mechanisms for Crossing Transactions; Options 3, Section 14, Complex Orders; Options 3, Section 15, Simple Order Risk Protections; and Options 3, Section 16, Complex Order Risk Protections. Each change will be described below.

Re-Introduction of Stock-Related Strategies and Elimination of Trade Value Allowance

Before the migration of MRX to an enhanced technology platform,[3] MRX

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

Members were able to trade certain Stock-Option Orders as described in MRX Options 3, Section 14(a)(2),[4] Stock-Complex Orders as described in MRX Options 3, Section 14(a)(3),[5] Complex QCC with Stock Orders as described in MRX Options 3, Section 14(b)(15),[6] QCC with Stock Orders[7] as described in Options 3, Section 7(t) and 12(e), as described in Supplementary Material .03 of MRX Options 3, Section 14 ("Delayed

4 The term "Stock-Option Order" refers to an order for a Stock-Option Strategy as defined in Options 3, Section 14(a)(2). A Stock-Option Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg. See MRX Options 3, Section 14(a)(2).

5 The term "Stock-Complex Order" refers to an order for a Stock-Complex Strategy as defined in Options 3, Section 14(a)(3). A Stock-Complex Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of a Complex Options Strategy on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing. See MRX Options 3, Section 14(a)(3).

6 A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in subparagraph (b)(6) of Options 3, Section 14, entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to MRX Options 3, Section 12(f).

7 A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12(e). See Options 3, Section 7(t).

Functionalities").[8] Separately, prior to the MRX migration, the Exchange offered a Trade Value Allowance,[9] which was also delayed.

At the time the Exchange issued an Options Trader Alert announcing migration details, the Exchange noted that these Delayed Functionalities would not be available for symbols that migrated to the platform and thereafter, until such time as the Exchange recommenced their availability by announcing a date in an Options Trader Alert, which date would be prior to one year from the start of the migration of the symbols to the platform.[10] The Exchange further noted that it was contemplating amendments to its stock-tied functionality and desired additional time to draft and code those changes before reintroducing stock-tied functionality on MRX.[11] MRX's technology migration commenced on November 7, 2022 and was completed on December 5, 2022.[12] At this time, the Exchange proposes to re-introduce stock-tied functionality and remove the

8 See note 3 above.

9 The Trade Value Allowance permits Stock-Option Strategies and Stock-Complex Strategies at valid increments Options 3, Section 14(c)(1), Stock-Option Strategies and Stock-Complex Strategies to trade outside of their expected notional trade value by a specified amount, in order to facilitate the execution of the stock leg and options leg(s). The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the Member, or a default value determined by the Exchange and announced to Members; provided that any amount of Trade Value Allowance is permitted in mechanisms pursuant to Options 3, Sections 11 and 13 when auction orders do not trade solely with their contra-side order. See Supplementary Material .03 of MRX Options 3, Section 14.

10 See note 3 above.

11 See note 3 above. MRX indicated that it would also need time to file any related rule changes with the Commission prior to reintroducing stock-tied functionality.

12 See Options Trader Alert #2022-34.

delayed implementation language within Options 3, Sections 7, 11, 12, 13, and 14.

Stock-Tied Functionality

MRX proposes to: (1) re-introduce stock-tied functionality; and (2) amend the stock-tied functionality that was available before the migration. Before the migration of MRX to an enhanced technology platform when the Exchange was offering stock-tied functionality, MRX Members desiring to execute an order with stock or an ETF component were required to enter into a brokerage agreement with a broker-dealer designated by the Exchange and were permitted to enter into such an agreement with one or more other broker-dealers to which the Exchange is able to route stock orders.[13]

The Exchange proposes to amend its rules to instead require that a Member desiring to execute a Stock-Option Order or a Stock-Complex Order enter into a brokerage agreement with Nasdaq Execution Services, LLC ("NES") which will execute the stock or ETF component of the order.[14] The stock component of a Qualified Contingent Cross ("QCC") with Stock Order or a Complex QCC with Stock Order will continue to be handled by a third-party broker as provided in Options 3, Sections 12(e) and (f).[15] NES is a broker-dealer owned and operated by Nasdaq, Inc. NES, an affiliate of the Exchange, has been approved by the Commission to become a Member of the Exchange and perform inbound routing on behalf of the Exchange.[16] Additionally, NES

13 See Supplementary Material .02 to Options 3, Section 14.

14 Id.

15 MRX members may also trade QCC Orders and complex QCC Orders. See Options 3, Section 12(c) and (d). For those orders, the parties to the trade will arrange for the execution of the stock component of the order.

16 See Securities Exchange Act Release No. 79995 (February 9, 2017), 82 FR 10811 (February 15, 2017) (SR-ISEMercury-2016-22) (Order Granting

is permitted to route outbound orders either directly or indirectly through a third party routing broker-dealer to other market centers and perform other functions regarding the cancellation of orders and the maintenance of a NES error account.[17]

NES currently acts as agent for orders to buy and sell the underlying stock or ETF component of a Complex Order on Nasdaq Phlx LLC ("Phlx").[18] The functions performed by NES on Phlx today are identical to the functions that MRX proposes for NES to perform for MRX Members.[19] Identical to Phlx, after MRX's System determines that a Complex Order execution is possible and identifies the prices for each component of such Complex Order, MRX will electronically communicate the stock or ETF component of the Complex Order to NES for execution.[20] NES, acting as agent for the

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Approval of Proposed Rule Changes, as Modified by Amendment Nos. 1 and 2 Thereto, To Permit Nasdaq Execution Services, LLC To Become an Affiliated Member of Each Exchange To Perform Certain Routing and Other Functions).

17 Id. MRX is subject to certain limitations and conditions such as maintaining a Regulatory Services Agreement with FINRA, as well as an agreement pursuant to Rule 17d-2 under the Act, among other limitations and conditions.

18 See Phlx Options 3, Sections 13(b), 14(a) and 16(b).

19 See Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011) (SR-Phlx-2010-157) (Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, Relating to Complex Orders) ("Phlx Complex Order Approval"). NES assumed the stock execution functionalities that were previously performed by NOS. Phlx subsequently filed to permit both inbound and outbound orders to be routed through NES instead of Nasdaq Options Services LLC ("NOS"). See Securities Exchange Act Release No. 71417 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-Phlx-2014-04) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Outbound Routing) and 71416 (January 28, 2014), 79 FR 6244 (February 3, 2014) (SR-Phlx-2014-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Inbound Routing of Options Orders).

20 See proposed Supplementary Material .08(b) to Options 3, Section 11, proposed Options 3, Section 12(b)(2), proposed Supplementary Material .09(b)

orders to buy and sell the underlying stock or ETF, will execute the orders in the over-the-counter ("OTC") market and will handle the orders pursuant to applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs, and short sales. Before the migration of MRX to an enhanced technology platform when the Exchange was offering stock-tied functionality, this function was performed by a third-party broker-dealer.

The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report the stock or ETF component of a Complex Order. However, there are two differences in the way Phlx and MRX handle stock-tied option orders.

First, while both Phlx and MRX have certain risk protections for complex orders, they differ. With respect to MRX, the execution price of the Complex Order must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). Specifically, today, MRX Options 3, Section 16(a) provides that the System will not permit any leg of a complex strategy to trade-through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. In contrast, Phlx Options 3, Section 16(b)(i) describes Phlx's Acceptable Complex Execution ("ACE") Parameter which defines a price range outside of which a complex order will not be executed. On Phlx, a complex order to sell is not executed at a price

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to Options 3, Section 13, proposed Supplementary Material .02 to Options 3, Section 14 and proposed Options 3, Section 16(d). See also Phlx Options 3, Section 13(b)(10)(ii), Options 3, Section 16(b).

that is lower than the cNBBO[21] bid by more than the ACE Parameter. Conversely, on Phlx, a complex order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. While MRX's and Phlx's price checks differ, both markets seek to prevent executions from occurring at certain prices and at certain percentages from the NBBO. MRX's proposal would require NES to apply the same price check for stock-tied functionality that was being applied previously by a third-party broker-dealer that executed the stock or ETF component of a complex strategy on behalf of MRX Members prior to MRX's technology migration. MRX Members would continue to be subject to the same price check which is applied to all Complex Orders executed on MRX.

Second, MRX and Phlx differ with respect to the manner in which their systems handle Stock-Option Strategies and Stock-Complex Strategies that would execute against interest on the Complex Order Book at a price that does not meet the price checks in their respective rules or do not meet Regulation SHO provisions as provided for in proposed Options 3, Section 16(e)[22] are handled by their respective systems. As proposed, MRX will hold orders on the Complex Order book that cannot be executed because of Regulation SHO or price check restrictions, unless the Member requests the order to be cancelled. If an MRX Member elects to have the order held on the Complex Order Book,

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21 The term "cNBBO" means the best net debit or credit price for a Complex Order Strategy based on the NBBO for the individual options components of a Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. See Phlx Options 3, Section 14(a)(vi).

22 As proposed, NES will only execute Stock-Option Strategies and Stock-Complex Strategies if the underlying covered security component is in accordance with Rule 201 of Regulation SHO.

the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. MRX's proposed approach would provide the Member with optionality as to the handing of the order. The Exchange believes providing the choice to have the order held on the Complex Order Book provides Members with an opportunity for an execution.

NES

NES is a registered broker-dealer and member of various exchanges and the Financial Industry Regulatory Authority ("FINRA"). NES will be responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order.[23] Because these trades will occur off-exchange, the principal regulator is FINRA. Furthermore, today, NES is responsible for compliance with FINRA rules generally and is subject to examination by FINRA. Specifically, NES is subject to FINRA Rule 3110, which generally requires that the policies and procedures and supervisory systems of a broker-dealer be reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules,

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23 The Commission's approval order for Phlx stated that NOS (now NES) "…as a facility of the Phlx, NOS is subject to oversight by the Commission and by the Phlx. In addition, NOS, a member of FINRA, is responsible for compliance with applicable rules regarding equity trading, including rules governing trade reporting, trade-throughs and short sales, and is subject to examination by FINRA. Because NOS will execute the stock or ETF component of a Complex Order in the OTC market, the principal regulator of these trades will be FINRA, rather than the Phlx or Nasdaq." See SR-Phlx-2010-157 76 FR 5630 at 5625, footnote 20. Phlx originally set up its affiliated broker-dealers as two separate entities, NES and NOS. When Phlx replaced NOS with NES, it noted in the rule change that NES will operate the same way as NOS operated, in terms of routing options orders to destination options exchanges. See SR-Phlx-2014-04, 79 FR 6253 at 6254.

including those relating to the misuse of material non-public information. To this end, today, NES has in place policies related to confidentiality and the potential for informational advantages relating to its affiliates, intended to protect against the misuse of material nonpublic information.[24] In particular, NES will have in place policies and procedures designed to prevent the misuse of material non-public information related to stock-tied executions. Of note, NES only receives information about the stock or ETF portion of the order from the Exchange. As mentioned herein, today, NES is responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order on Phlx. MRX will adopt identical policies and procedures for its stock-tied functionality as are in place on Phlx today.

In addition, because the execution and reporting of the stock/ETF piece will occur otherwise than on MRX or any other exchange, it will be handled by NES pursuant to applicable rules regarding equity trading,[25] including the rules governing trade reporting,

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24 Similarly, the Exchange does establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and NES. Additionally NES undertook all NOS' responsibilities with respect to the execution and reporting of the underlying security component of a Complex Order. See SR-Phlx-2014-04 at note 20. Therefore, members of FINRA or the NASDAQ Stock Market ("NASDAQ") who were required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with NOS in order to trade Complex Orders containing a stock/ETF component and firms that are not members of FINRA or NASDAQ who were required to have a Qualified Special Representative ("QSR") arrangement with NOS in order to trade Complex Orders containing a stock/ETF component were required to have such arrangements with NES. See Securities Exchange Act Release No. 71417 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-Phlx-2014-04) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Outbound Routing) and 71416 (January 28, 2014), 79 FR 6244 (February 3, 2014) (SR-Phlx-2014-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Inbound Routing of Options Orders).

25 Once the orders are communicated to the broker-dealer for execution, the

trade-throughs and short sales. Specifically, NES will report the trades to the Trade Reporting Facility.[26] Firms that are members of FINRA are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with NES in order to trade Complex Orders containing a stock/ETF component. Firms that are not members of FINRA are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade Complex Orders containing a stock/ETF component. This requirement is codified in proposed Supplementary Material .08 to Options 3, Section 11, proposed Options 3, Section 12(b)(1), proposed Supplementary Material .09 to Options 3, Section 13 and proposed Supplementary Material .07 to Options 3, Section 14. Accordingly, this process is available to all MRX Members and the stock/ETF component of a Complex Order, once executed, will be properly processed for trade reporting purposes. Phlx has identical requirements within its Options 3, Sections 13(b)(10) and 14(a)(i).

With respect to trade-throughs, the Exchange believes that the stock/ETF component of a Complex Order is eligible for the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. A Qualified Contingent Trade is a transaction consisting of two or more component orders, executed as agent or principal, that satisfy the six elements in the Commission's order exempting Qualified Contingent Trades

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broker-dealer has complete responsibility for determining whether the orders may be executed in accordance with all of the rules applicable to execution of equity orders.

26 Specifically, the trades will be reported to the FINRA/Nasdaq TRF which is a facility of FINRA that is operated by Nasdaq, Inc. and utilizes Automated Confirmation Transaction ("ACT") Service technology.

("QCTs") from the requirements of Rule 611(a),[27] which requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs.[28] The Exchange believes that the stock/ETF portion of a Complex Order under this proposal complies with all six requirements. Moreover, as explained below, MRX's System will validate compliance with each requirement such that any matched order received by NES under this proposal has been checked for compliance with the exemption, as follows:

> (1) At least one component order is in an NMS stock: The stock/ETF component must be an NMS stock, which is validated by the System;
>
> (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent: A Complex Order, by definition consists of a single net/debit price and this price contingency applies to all the components of the order, such that the stock price computed and sent

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[27] 17 CFR 242.611(a).

[28] See Securities Exchange Act Release Nos. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) ("QCT Exemptive Order"). See also Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006). The QCT Exemption applies to trade-throughs caused by the execution of an order involving one or more NMS stocks that are components of a "qualified contingent trade." As described more fully in the QCT Exemptive Order, a qualified contingent trade is a transaction consisting of two or more component orders, executed as principal or agent, where: (1) At least one component order is an NMS stock; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (*e.g.,* the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) the Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

to NES allows the stock/ETF order to be executed at the proper net debit/credit price based on the execution price of each of the option legs, which is determined by the MRX System;

(3) the execution of one component is contingent upon the execution of all other components at or near the same time: Once a Complex Order is accepted and validated by the System, the entire package is processed as a single transaction and each of the option leg and stock/ETF components are simultaneously processed;

(4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed: Complex Orders, upon entry, must have a size for each component and a net debit/credit, which the System validates and processes to determine the ratio between the components; an order is rejected if the net debit/credit price and size are not provided on the order;

(5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled: under this proposal, the stock/ETF component must be the underlying security respecting the option legs, which is validated by the System; and

(6) the transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade: Under this proposal, the ratio between the options and stock/ETF must be a conforming ratio (8 contracts per 100 shares), which the System validates, and which under reasonable risk valuation methodologies, means that the stock/ETF position is fully hedged.[29]

Furthermore, proposed Supplementary Material .08 to Options 3, Section 11, proposed Options 3, Section 12(b)(1), proposed Supplementary Material .09 to Options 3, Section 13 and proposed Supplementary Material .07 to Options 3, Section 14 provide

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29 A trading center may demonstrate that an Exempted NMS Stock Transaction is fully hedged under the circumstances based on the use of reasonable risk-valuation methodologies. The release approving the original exemption stated: To effectively execute a contingent trade, its component orders must be executed in full or in ratio at its predetermined spread or ratio. "In ratio" clarifies that component orders of a contingent trade do not necessarily have to be executed in full, but any partial executions must be in a predetermined ratio.

that Members may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption. Members submitting such Complex Orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Thus, the Exchange believes that Complex Orders consisting of a stock/ETF component will comply with the exemption and that MRX's System will validate such compliance to assist NES in carrying out its responsibilities as agent for these orders.

With respect to short sale regulation, the proposed handling of the stock/ETF component of a Complex Order under this proposal should not raise any issues of compliance with the currently operative provisions of Regulation SHO.[30] When a Complex Order has a stock/ETF component, Members must indicate, pursuant to Regulation SHO, whether that order involves a long or short sale. The System will accept Complex Orders with a stock/ETF component marked to reflect either a long or short position; specifically, orders not marked as buy, sell or sell short will be rejected by MRX's System.[31] The System will electronically deliver the stock/ETF component to NES for execution. Simultaneous to the options execution on MRX's System, NES will execute and report the stock/ETF component, which will contain the long or short indication as it was delivered by the Member to MRX's System. Accordingly, NES, as a trading center under Rule 201, will be compliant with the requirements of Regulation SHO. Of course, broker-dealers, including both NES and the Members submitting orders to MRX with a stock/ETF component, must comply with Regulation SHO. NES'

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30 17 CFR 242.200 *et seq*.

31 The Exchange also accepts short sell exempt orders as described herein.

compliance team updates, reviews and monitors NES' policies and procedures including those pertaining to Regulation SHO on an annual basis.

Further, proposed Supplementary Material .08(c) to Options 3, Section 11, and proposed Options 3, Section 12(b)(3), proposed Supplementary Material .09(c) to Options 3, Section 13, and proposed Options 3, Section 16(e) provide that when the short sale price test in Rule 201 of Regulation SHO[32] is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component[33] of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order Book, if consistent with Member instructions (Members may always elect to cancel the order).[34] The order may execute at a price that is not equal to or below the current national best bid.[35] This proposed rule is similar to Phlx Options 3, Section 16(b) except

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32 See Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010) ("Rule 201 Adopting Release").

33 For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

34 See proposed Options 3, Section 16(e). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and Supplementary Material .09 to Options 3, Section 13.

35 See proposed Options 3, Section 16(e).

that unlike Phlx, MRX will not cancel back the Complex Order to the entering Member unless the Member requests that the order be cancelled. As noted above, MRX and Phlx differ with respect to the manner in which their systems handle Stock-Option Strategies and Stock-Complex Strategies that do not meet requisite price checks in their respective rules or do not meet the requirements of Regulation SHO. As proposed, MRX will hold orders on the Complex Order book that cannot be executed pursuant to Regulation SHO restrictions, unless the Member requests the order to be cancelled.[36] If an MRX Member elects to have the order held, the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. MRX's proposed approach would the Member with optionality as to the handing of the order. The Exchange believes providing the choice to have the order held provides Members with an opportunity for an execution.

For these reasons, the processing of the stock/ETF component of a Complex Order under this proposal will comply with applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs and short sales. NES's responsibilities respecting these equity trading rules will be documented in NES's written policies and procedures. NES' compliance team updates, reviews and monitors NES' policies and procedures regarding equity trading rules on an annual basis. NES is regulated by FINRA and as such, NES policies and procedures are subject to review and examinations by FINRA.

As part of the execution of the stock/ETF component, NES will ensure that the

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36 See proposed Options 3, Section 16(e).

execution price is within the intra-day high-low range for the day in that stock at the time the Complex Order is processed and within a certain price range from the current market pursuant to Options 3, Section 16(a),[37] which the Exchange will establish in an Options Trader Alert. If the stock price is not within these parameters, the Complex Order is not executable and would be held on the order book or cancelled, consistent with Member instructions.[38] Before the migration of MRX to enhanced technology platform when the Exchange was offering stock-tied functionality, the third-party broker-dealer would ensure the execution price was within the intra-day high-low range. With the transition to NES, the Exchange would commence performing this check. Members who transact stock-tied functionality on MRX would therefore continue to be subject to the same execution price check with NES as they were before the migration.

The Exchange believes that the continued electronic submission of the stock/ETF piece of the Complex Order to NES for execution should help ensure that the Complex Order, as a whole, is executed timely and at the desired price. In addition, the Exchange's electronic communication of the stock or ETF component to NES for execution eliminates the need for each party to separately submit the stock component to a broker-dealer for execution. The execution of the stock/ETF portion of a Complex Order will be immediate; the Exchange's System will calculate the stock price based on

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37 This intra-day high-low range check does not occur for Complex PIM Orders, Complex Facilitation Orders and Complex SOM Orders, and also does not occur for Complex Customer Cross Orders.

38 See proposed Options 3, Section 16(d). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and Supplementary Material .09 to Options 3, Section 13.

the net debit/credit price of the Complex Order,[39] while also calculating and determining the appropriate options price(s), all electronically. The Exchange continues to believe that this practice would not require the Exchange to later nullify options trades if the stock price cannot be achieved. Accordingly, like Phlx, the Exchange is not proposing to adopt a rule permitting such option trade nullifications because the trade would not occur at a price that later required nullification due to the unavailability of the stock/ETF price. The Exchange further believes that the certainty associated with such electronic calculations and processing will continue to be an attractive feature for Members transacting Complex Orders with a stock or ETF component. Likewise, Phlx does not have a rule for options trade nullification for similar transactions. Phlx reasoned in its proposal to similarly use an affiliate to execute the stock or ETF component of a Complex Order that because such execution would be immediate, with Phlx's system calculating the stock or ETF price based on the net debit/credit price of the Complex Order while also calculating and determining the appropriate options price(s), that it believed that its approach would not require Phlx to later nullify options trades if the stock price cannot be achieved.[40]

The Exchange also believes that it is appropriate to construct a program wherein its affiliate, NES, is the exclusive conduit for the execution of the stock/ETF component of a Complex Order under this proposal, similar to Phlx.[41] As a practical matter, complex

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39 The stock/ETF price is, of course, included within the net debit/credit price of the Complex Order.

40 See Phlx Complex Order Approval supra at 5633.

41 See MRX General 2, Section 4(b) which provides that Nasdaq, Inc., which owns NASDAQ Execution Services, LLC and the Exchange, shall establish and maintain procedures and internal controls reasonably designed to ensure

order programs on other exchanges involve specific arrangements with a broker-dealer to facilitate prompt execution. NES does not intend to charge a fee for the execution of the stock/ETF component of a Complex Order.[42] The Exchange believes that is consistent with the Act for such an arrangement to involve one broker-dealer, even one that is an affiliate, particularly to offer the aforementioned benefits of a prompt, electronic execution for Complex Orders involving stock/ETFs. Specifically, offering a seamless, automatic execution for both the options and stock/ETF components of a Complex Order is an important feature that should promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system by deeply enhancing the sort of complex order processing available on options exchanges today. Nevertheless, Members could, in lieu of this proposed arrangement with NES, choose, instead, the following alternatives: (i) avoid using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[43]

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that NASDAQ Execution Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange Members in connection with the provision of inbound routing to the Exchange.

42 However, Trade Reporting Facility and clearing fees, not charged by MRX or NES, may result. National Securities Clearing Corporation ("NSCC") and ACT will bill firms directly for their use of the NSCC and ACT systems, respectively. To the extent that NES is billed by NSCC or ACT, it will not pass through such fees to firms for the stock/ETF portion of a Complex Order under this proposal. MRX's fees applicable to Complex Orders appear in its Fee Schedule and may change from time to time.

43 Existing Complex Order mechanisms at Cboe, Inc. ("Cboe") offers a similar

In line with the proposed amendments, the Exchange proposes to remove language within Supplementary Material .02 of Options 3, Section 14 which states,

> Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed.

As noted herein, Members will no longer be able to indicate preferred execution brokers which makes the first sentence within Supplementary Material .02 of Options 3, Section 14 unnecessary. The second sentence within Supplementary Material .02 of Options 3, Section 14 is being removed because the Exchange is replacing this rule text with proposed Options 3, Section 16(d) and (e) which describes price checks that will be performed for Stock-Option Orders or Stock-Complex Orders by NES. The third sentence within Supplementary Material .02 of Options 3, Section 14 is being removed because the Exchange's proposal to replace the third-party broker with NES will remove a delay that currently exists in the workflow to process a Stock-Option Order or Stock-Complex Order. NES will perform the stock leg validations proposed in Options 3, Sections 16(d) and (e) for Stock-Option Orders or Stock-Complex Orders. Thereafter, NES would print the stock components onto the Trade Reporting Facility and MRX would print the option component executions. This new workflow in which the stock or ETF component of the order will be routed to NES for execution instead of a third-party

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end result. See Cboe 5.33(l).

broker-dealer will obviate the possibility that the stock execution venue will be unavailable for trading while the order is being processed because MRX would no longer be reliant on a third-party broker-dealer to conduct the appropriate checks and, thereafter, relay information to MRX. With the proposed change, NES, the Exchange's affiliate, would conduct the necessary price checks and would make Stock-Option Orders or Stock-Complex Orders available to MRX in the same way that it does for Phlx. The Exchange believes that this new workflow would increase the efficiency of the entire transaction, including stock component validation and reporting.

Complex Opening Process

Similarly, the Exchange proposes to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14 instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14. Similar to the discussion above, the applicable price checks for the stock/ETF component of a Stock-Option Strategy and Stock-Complex Strategy were being performed by a third-party broker-dealer before the migration, which caused a delay that prevented these strategies from participating in the Complex Opening Process. With the proposed change to utilize NES in lieu of a third-party broker-dealer, Stock-Option Strategies and Stock-Complex Strategies would be able to participate in the Complex Opening Process because there would be no delay as NES, the Exchange's affiliate, would conduct the necessary checks (i.e., the price checks Options 3, Section 16(d) and (e)). Thereafter, NES would make Stock-Option Order or Stock-Complex Order available to participate in the Complex Opening Process.

For example, assume that an underlying equity is in a Regulation SHO State, the underlying equity component is open on the primary underlying market, and the following strategy is created prior to the option leg being opened on MRX:

- Assume Stock Option Strategy: Buy 8 puts and buy 100 shares
- Stock Leg NBBO: 50.00 x 50.20
- Option leg opens on MRX and the NBBO is 2.00 x 2.10
- Stock-Option Strategy derived NBBO: 16.50 x 16.75[44]
- Firm A Customer Stock-Option Order to buy 5 strategies for 16.50 arrives
- Firm B Stock-Option Order to buy 5 strategies for 16.50 arrives
- Firm C Stock-Option Order to sell 7 strategies for 16.50 arrives with instructions to short the stock component
- Firm D Stock-Option Order to sell 3 strategies for 16.50 arrives with instructions to Sell the Stock component

In the above scenario, only Firm A (buying 5 strategies) and Firm D (not shorting 3 strategies) can actually trade at the Opening Price despite it appearing there is a fully matched cross. Firm C (selling 7 strategies) cannot trade because the underlying is in a Regulation SHO state and the only price the stock leg can be matched at, is on the National Best Bid, which is not a permissible price to short sell for an underlying in a Regulation SHO state.

Prior to the migration, MRX did not attempt to match Stock-Option Orders and

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44 The derived NBBO for the Stock Option Strategy was calculated as follows: Stock Option Strategy Derived Bid = ¼(2.00 x 8) + ¼(50) = 16.50 and Stock Option Strategy Derived Offer = ¼(2.10 x 8) + ¼(50.20) = 16.75. The Stock Option Strategy is normalized by MRX's System by dividing the legs by the greatest common denominator of four (4). The normalized ratio was applied to the option leg price and stock leg price to determine the net price strategy.

Stock-Complex Orders during the Complex Opening Price Determination because the Exchange could not ensure that all parties in the cross would be able to match at the proposed stock leg price because the checks were performed by a third party. If the third party was unable to match part of the cross, executions on the options components would need to be busted, therefore the Exchange did not consider Stock-Option Orders and Stock-Complex Orders in the Complex Opening prior to the migration.

With this proposal, the price checks would be conducted by NES, an affiliate of the Exchange. Once MRX determines the stock and option leg prices, MRX will communicate the stock price and quantity to NES, who will conduct the necessary price checks. The proposed workflow provides efficiencies for the stock component execution as compared to the current process which involves a third-party broker-dealer. With this process, MRX would be able to process the option component and match the strategies during the Complex Opening Price Determination without the need for MRX to await a response from a third-party broker-dealer.

The ability to attempt this match opportunity earlier in the Complex Opening Price Determination is critical because the market can move between the Complex Opening Price Determination and the Complex Uncrossing Process[45] in such a way that the trade could no longer be possible. By way of example, prior to the migration, if the Stock Component adjusts to 53.00 x 54.00 before this strategy can attempt a Complex Uncrossing Process, the Stock Option Strategy derived NBBO would be 17.25 x 17.70 and there would no longer be a match possible for the interest willing to buy and sell at 16.50. If the System instead had utilized the Opening Price Determination, the execution

[45] See Supplementary Material .06 to MRX Options 3, Section 14.

would have occurred in this instance.

Trade Value Allowance

Trade Value Allowance is a functionality that allows Stock-Option Strategies and Stock-Complex Strategies to trade outside of their expected notional trade value by a specified amount (the "Trade Value Allowance").[46] After calculating the appropriate options match price for a Stock-Option or Stock-Complex Order expressed in a valid one cent increment, the System calculates the corresponding stock match price rounded to the increment supported by the equity market.

The Exchange no longer desires to offer the Trade Value Allowance. The Exchange has issued an Options Trader Alert indicating its intent to decommission this functionality to provide notice to Members.[47] Very few Members have opted to utilize the Trade Value Allowance and even a smaller percentage of trades were subject to the allowance. Phlx does not have a similar allowance today. In an effort to harmonize its complex order functionality across its Nasdaq affiliated markets, the Exchange proposes to no longer offer the Trade Value Allowance functionality. With the proposed change to utilize NES, the Exchange would determine the stock leg prices, and NES would be able to execute the stock leg at two different prices to ensure that the net price of the execution is within the notional value of the original order, thus eliminating the need for the allowance.

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[46] The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. See Supplementary Material .03 of MRX Options 3, Section 14.

[47] See Options Trader Alert # 2023-3. No Member has expressed concern with this functionality being eliminated.

Options 3, Section 7

The Exchange proposes to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols. The Exchange proposes to amend MRX Options 3, Section 7(t) related to QCC with Stock Orders to make clear that QCC with Stock Orders may only be entered through FIX.[48] MRX has 2 order entry protocols, FIX and OTTO.[49] Members are required to have an order entry protocol to enter orders onto MRX. MRX offers each Member one FIX port at no cost.[50] All Members would have the ability to enter QCC with Stock Orders. QCC with Stock Orders may not be entered through OTTO.

Additionally, the Exchange proposes to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders. The Exchange proposes to specifically amend Supplementary Material .02(d)(3) to Options 3, Section 7 to add QCC with Stock Orders and Complex QCC with Stock to the list of order types that have a

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

49 "Ouch to Trade Options" or "OTTO" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages. See Supplementary Material .03(b) to Options 3, Section 7.

50 See Options 7, Section 6, Ports and Other Services.

Time in Force or "TIF" of Immediate-or-Cancel or "IOC". Because QCC with Stock Orders and Complex QCC with Stock have a TIF of IOC, these order types will either execute on entry or cancel. Adding these order types to Supplementary Material .02(d)(3) to Options 3, Section 7 will make this clear.

Options 3, Section 12

The Exchange proposes to amend Options 3, Section 12(e)(4) to clarify the manner in which a Member may submit a QCC with Stock Order.[51] Today, Options 3, Section 12(e)(4) provides that, "QCC with Stock Orders can be entered with separate prices for the stock and options components, or with a net price for both." The Exchange proposes to amend this rule text to instead reflect the current manner in which QCC with Stock Orders may be entered into MRX's System. The proposed rule text would provide, "QCC with Stock Orders must be entered with a net price for the stock and options components through FIX. The System will calculate the individual component prices." The current language of Options 3, Section 12(e)(4) is not correct. The Exchange proposes to amend this language to make clear the current System functionality. The proposed language does not result in a change to the Exchange's System. As noted above, QCC with Stock Orders may not be entered through OTTO. The Exchange notes that requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which currently requires Members to enter QCC Orders through FIX. Additionally, the Exchange is specifying the System calculates the individual component prices.

51 QCC with Stock Orders are processed in accordance with Options 3, Section 12(e).

Options 3, Section 15

The Exchange proposes to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language that would apply as a result of the proposed changes to stock-tied functionality.

Today, the Exchange offers a Market Wide Risk Protection which is comprised of an "Order Entry Rate Protection" which protects Members against entering orders at a rate that exceeds predefined thresholds, and an "Order Execution Rate Protection," which protects Members against executing orders at a rate that exceeds their predefined risk settings. Both of these risk protections are detailed in the "Market Wide Risk Protection." Today, pursuant to the proposed Market Wide Risk Protection rule, the Exchange's System maintains one or more counting programs for each Member that count orders entered and contracts traded on MRX. Members can use multiple counting programs to separate risk protections for different groups established within the Member.

MRX Options 3, Section 15(a)(1)(C) currently states, that the counting programs will maintain separate counts, over rolling time periods specified by the Member for each count of: (1) the total number of orders entered; (2) the total number of contracts traded. The Exchange proposes to amend MRX Options 3, Section 15(a)(1)(C) to instead provide,

> [t]he counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of orders entered in the complex order book with only options legs; (3) the total number of Stock-Option Orders and Stock-Complex Orders entered in the complex order book with both stock and options legs ; (4) the total number of contracts traded in regular orders; (5) the total number of contracts traded in complex orders with only options legs; and (6) the total number

of Stock-Option Order and Stock-Complex Order contracts traded in complex orders with both stock and option legs).

Today, the counting programs maintain separate counts over rolling time period for the total number of orders entered in the regular order book, complex order book with only options legs; and the complex order book with both stock and options legs. Additionally, the risk protection counts the total number of contracts traded in regular orders and Complex Orders with only options legs.[52] The current rule text does not provide for each of these counts today.

The Exchange proposes a technical amendment to the first provision of MRX Options 3, Section 15(a)(1)(C) to add "in the regular order book" to the sentence to distinguish the single-leg order book from the complex order book.

At the time that MRX adopted Complex Order rules, those rules were intended to be identical to Nasdaq ISE, LLC ("ISE") complex order rules.[53] MRX should have amended MRX Options 3, Section 15(a)(1)(C) to include the rule text within (2) through (5), as noted above, to mirror the rules of ISE Options 3, Section 15(a)(1)(C) as it pertains to Complex Orders. The Exchange proposes to mirror the rules of ISE Options 3, Section 15(a)(1)(C) within (2) through (5) except that the rules will use the defined terms Stock-Option Order, Stock-Complex Order, and Complex Option Order.[54] The

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52 The Member's allowable order rate for the Order Entry Rate Protection is comprised of the parameters defined in (1) to (3), while the allowable contract execution rate for the Order Execution Rate Protection is comprised of the parameters defined in (4) and (5).

53 See Securities Exchange Act Release No. 86326 (July 8, 2019), 84 FR 33300 (July 12, 2019) (SR-MRX-2019014) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Adopt Complex Order Pricing).

54 A similar change will be made to ISE to utilize the defined terms "Stock-Option Order," "Stock-Complex Order" and "Complex Option Order."

Exchange notes that the stock portion of QCC Orders, Complex Qualified QCC Orders, QCC with Stock Orders, and Complex QCC with Stock Orders are not counted in (3) because MRX's System does not handle the stock portion of these orders. MRX would not represent the stock leg through NES as it would for other Stock-Option Orders and Stock-Complex Orders as described herein. The Exchange inadvertently did not amend its rules similar to ISE today. Today, the Market Wide Risk Protection includes Complex Orders, where applicable. At this time, MRX proposes to mirror ISE's rules related to the counting functionality for Complex Orders to reflect the manner in which the System operates. The Exchange notes that QCC Orders, Complex Qualified QCC Orders, QCC with Stock Orders, and Complex QCC with Stock Orders are considered, where applicable, in Options 3, Section 15(a)(1)(C)(1), (2), (4) and (5).

Today, the Exchange does not include a complex execution count for Complex Orders with a stock component as the execution counts maintained by the Order Execution Rate Protection are based solely on options contracts traded. At this time, as a result of amending the stock-tied functionality, the Exchange proposes to add a new number (6) to MRX Options 3, Section 15(a)(1)(C) to note that the counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of the total number of Stock-Option Order and Stock-Complex Order contracts traded in Complex Order with both stock and option legs. The Exchange is adding new number (6) because it is introducing NES in place of a third-party broker-dealer. As a result, the Exchange will guarantee a stock-tied execution. Before the migration, the stock-tied execution was not guaranteed by the third-party broker-dealer. Because of the ability to guarantee the execution, the Exchange is amending Options 3, Section

15(a)(1)(C) to add (6) to the list of contracts counted by the Market Wide Risk Protection because the Exchange is able to perform the risk check since NES will be handling the stock for Stock-Option Orders and Stock-Complex Orders. This risk protection will reduce risk associated with system errors or market events that may cause Members to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Without adequate risk management tools, such as those proposed in this filing, Members could reduce the amount of order flow and liquidity that they provide on MRX. As a result, the functionality promotes just and equitable principles of trade.

Finally, the Exchange proposes to add the defined term "DNTT" to the end of Options 3, Section 16(a) to define the instruction on a Complex Order to price each leg of the Complex Order to be executed equal to or better than the NBBO for the options series or any stock component, as applicable as a "Do-Not-Trade-Through" or "DNTT." This is not a substantive amendment, rather this change is meant to assist Members in locating this functionality within MRX's rules.

Implementation

The Exchange will issue an Options Trader Alert to Members to provide notification of the implementation date for MRX's Delayed Functionalities, except Trade Value Allowance. MRX will announce the day it will recommence the Delayed Functionalities, except Trade Value Allowance, before November 7, 2023, which is one year from the day MRX's technology migration commenced. Separately, MRX informed Members that it will not recommence the Trade Value Allowance functionality in a separate Options Trader Alert.[55] As discussed above, the Trade Value Allowance will no longer be necessary.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[56] in general, and furthers the objectives of Section 6(b)(5) of the Act,[57] in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest for the reasons discussed below.

Re-Introduction of Stock-Related Strategies and Elimination of Trade Value Allowance

Stock-Tied Functionality

The Exchange's proposal to amend its stock-tied functionality that the Exchange used prior to the technology migration and recommence offering this functionality as described above promotes just and equitable principles of trade and removes impediments to and perfect the mechanism of a free and open market and a national market system because it will permit the Exchange to streamline its stock-tied processes as discussed more fully below. Further, the amendments to require that a Member desiring to execute an order with stock or an ETF component enter into a brokerage agreement with NES, a broker-dealer owned and operated by Nasdaq, Inc., protects investors and the general public because Members will be required to comply with NES' requirements and those requirements will be uniform for all MRX Members.

The proposed stock-tied functionality is identical to Phlx Options 3, Sections

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55 See supra note 12.

56 15 U.S.C. 78f(b).

57 15 U.S.C. 78f(b)(5).

13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report stock-tied functionality with two differences.

First, while both Phlx and MRX have certain risk protections for complex orders, they differ. With respect to MRX, the execution price of the Complex Order must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). Specifically, today, MRX Options 3, Section 16(a) provides that the System will not permit any leg of a complex strategy to trade-through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. Phlx Options 3, Section 16(b)(i) describes Phlx's ACE Parameter which defines a price range outside of which a complex order will not be executed. On Phlx, a complex order to sell is not executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. Conversely, on Phlx, a complex order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. While MRX's and Phlx's price checks differ, both markets seek to prevent executions from occurring at certain prices and at certain percentages from the NBBO. The Exchange believes that this proposal promotes just and equitable principles of trade because NES would apply the same price check for stock-tied functionality that was being applied previously by a third party that executed the stock or ETF component of a complex strategy on behalf of MRX Members. Additionally, MRX Members would continue to be subject to the same price check which is applied to all Complex Orders executed on MRX.

Second, MRX and Phlx differ with respect to the manner in which their systems handle Stock-Option Strategies and Stock-Complex Strategies that would execute against interest on the Complex Order Book at a price that do not meet price checks as provided for in proposed Options 3, Section 16(d)[58] or do not meet Regulation SHO provisions as provided for in proposed Options 3, Section 16(e)[59] are handled by their respective systems. As proposed, MRX will hold orders on the Complex Order book that cannot be executed because of Regulation SHO or price check restrictions, unless the Member requests the order to be cancelled. If an MRX Member elects to have the order held on the Complex Order Book, the order would await other matching opportunities, otherwise at the Member's election the order would be returned to the Member. In contrast, Phlx only provides for a cancellation of the order. The Exchange believes that this proposal promotes just and equitable principles of trade because MRX's proposed approach would provide the Member with optionality as to the handing of the order. The Exchange believes providing the choice to have the order held on the Complex Order Book provides Members with an opportunity for an execution.

NES, an affiliate of the Exchange and a registered broker-dealer, has been approved by the Commission to become a Member of the Exchange and perform inbound routing on behalf of the Exchange.[60] Additionally, NES is permitted to route outbound orders either directly or indirectly through a third party routing broker-dealer to other

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[58] As proposed, the execution price of Stock-Option Strategies and Stock-Complex Strategies must be within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market pursuant to Options 3, Section 16(a), as determined by the Exchange.

[59] See supra note 22.

[60] See supra note 16.

market centers and perform other functions regarding the cancellation of orders and the maintenance of a NES error account.[61] The functions performed by NES on Phlx today are identical to the functions that MRX proposes for NES to perform for MRX Members.[62] Identical to Phlx, after MRX's System determines that a Complex Order is possible and identifies the prices for each component of such Complex Order, MRX will electronically communicate the stock or ETF component of the Complex Order to NES for execution.[63]

NES, acting as agent for the orders to buy and sell the underlying stock or ETF, will execute the orders in the OTC market and will handle the orders pursuant to applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs, and short sales. Before the migration, this function was performed by a third-party broker-dealer that executed the stock or ETF component of a complex strategy

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61 See supra note 17.

62 See Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011) (SR-Phlx-2010-157) (Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, Relating to Complex Orders) ("Phlx Complex Order Approval"). NES assumed the stock execution functionalities that were previously performed by NOS. Phlx subsequently filed to permit both inbound and outbound orders to be routed through NES instead of Nasdaq Options Services LLC ("NOS"). See Securities Exchange Act Release No. 71417 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-Phlx-2014-04) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Outbound Routing) and 71416 (January 28, 2014), 79 FR 6244 (February 3, 2014) (SR-Phlx-2014-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Inbound Routing of Options Orders).

63 See proposed Supplementary Material .08(b) to Options 3, Section 11, proposed Options 3, Section 12(b)(2), proposed Supplementary Material .09(b) to Options 3, Section 13, proposed Supplementary Material .02 to Options 3, Section 14 and proposed Options 3, Section 16(d). See also Phlx Options 3, Section 13(b)(10)(ii), Options 3, Section 16(b).

on behalf of MRX Members. As proposed, this structure will promote just and equitable principles of trade because NES will be responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order.[64] Furthermore, today, NES is responsible for compliance with FINRA rules generally and is subject to examination by FINRA.[65] Finally, today, NES has in place policies related to confidentiality and the potential for informational advantages relating to its affiliates, intended to protect against the misuse of material nonpublic information.[66] In particular, NES will have in place policies and procedures designed to prevent the misuse of material non-public information related to stock-tied executions which will protect investors and the public interest. NES only receives information about the stock or ETF portion of the order from the Exchange. As mentioned herein, today, NES is responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order on Phlx. MRX will adopt identical policies and procedures for its stock-tied functionality as are in place on Phlx today.

In addition, the execution and reporting of the stock/ETF piece will occur otherwise than on MRX or any other exchange, and will be handled by NES pursuant to

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64 See supra note 23.

65 NES is subject to FINRA Rule 3110, which generally requires that the policies and procedures and supervisory systems be reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules, including those relating to the misuse of material non-public information.

66 See supra note 24.

applicable rules regarding equity trading,[67] including the rules governing trade reporting, trade-throughs and short sales. The Exchange's proposal also promotes just and equitable principles of trade as NES will report the trades to the Trade Reporting Facility.[68] Further, all MRX Members may execute stock-tied transactions. All stock-tied transactions will have the stock/ETF component of a Complex Order, once executed, properly processed for trade reporting purposes. Phlx has identical rules for processing and reporting.[69]

With respect to trade-throughs, the Exchange believes that the stock/ETF component of a Complex Order is eligible for the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. The Exchange believes that the stock/ETF portion of a Complex Order under this proposal complies with all six requirements of the Qualified Contingent Trade Exemption.[70] In order to promote just and equitable

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67 See supra note 25.

68 See supra note 26.

69 See Phlx Options 3, Sections 13(b)(10) and 14(a)(i).

70 The six requirements include: (1) At least one component order is in an NMS stock: The stock/ETF component must be an NMS stock, which is validated by the System; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent: A Complex Order, by definition consists of a single net/debit price and this price contingency applies to all the components of the order, such that the stock price computed and sent to NES allows the stock/ETF order to be executed at the proper net debit/credit price based on the execution price of each of the option legs, which is determined by the MRX System; (3) the execution of one component is contingent upon the execution of all other components at or near the same time: Once a Complex Order is accepted and validated by the System, the entire package is processed as a single transaction and each of the option leg and stock/ETF components are simultaneously processed; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is

principles of trade, MRX's System will validate compliance with each requirement such that any matched order received by NES under this proposal has been checked for compliance with the exemption. Members may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption.[71] Members submitting such Complex Orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Thus, the Exchange believes that Complex Orders consisting of a stock/ETF component will comply with the exemption and that MRX's System will validate such compliance to assist NES in carrying out its responsibilities as agent for these orders.

With respect to short sale regulation, the proposed handling of the stock/ETF component of a Complex Order under this proposal should not raise any issues of compliance with the currently operative provisions of Regulation SHO[72] and therefore promote just and equitable principles of trade. When a Complex Order has a stock/ETF component, Members must indicate, pursuant to Regulation SHO, whether that order

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placed: Complex Orders, upon entry, must have a size for each component and a net debit/credit, which the System validates and processes to determine the ratio between the components; an order is rejected if the net debit/credit price and size are not provided on the order; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled: under this proposal, the stock/ETF component must be the underlying security respecting the option legs, which is validated by the System; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade: Under this proposal, the ratio between the options and stock/ETF must be a conforming ratio (8 contracts per 100 shares), which the System validates, and which under reasonable risk valuation methodologies, means that the stock/ETF position is fully hedged.

71 See Supplementary Material .07 to Options 3, Section 14.

72 17 CFR 242.200 *et seq*.

involves a long or short sale. The System will accept Complex Orders with a stock/ETF component marked to reflect either a long or short position; specifically, orders not marked as buy, sell or sell short will be rejected by MRX's System.[73] The System will electronically deliver the stock/ETF component to NES for execution. Simultaneous to the options execution on MRX's System, NES will execute and report the stock/ETF component, which will contain the long or short indication as it was delivered by the Member to MRX's System. Accordingly, NES, as a trading center under Rule 201, will be compliant with the requirements of Regulation SHO. Of course, broker-dealers, including both NES and the Members submitting orders to MRX with a stock/ETF component, must comply with Regulation SHO. NES' compliance team updates, reviews and monitors NES' policies and procedures including those pertaining to Regulation SHO on an annual basis.

Further, proposed Options 3, Section 16(e) provides that when the short sale price test in Rule 201 of Regulation SHO[74] is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order

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73 The Exchange also accept short sell exempt orders as described herein.

74 See supra note 32.

Book, if consistent with Member instructions (Members may always elect to cancel the order).[75] The order may execute at a price that is not equal to or below the current national best bid. This proposed rule is similar to Phlx Options 3, Section 16(b) except that unlike Phlx, MRX will not cancel back the Complex Order to the entering Member unless the Member requests that the order be cancelled back.

For these reasons, the processing of the stock/ETF component of a Complex Order under this proposal will comply with applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs and short sales and is consistent with the Act. NES's responsibilities respecting these equity trading rules will be documented in NES's written policies and procedures. NES' compliance team updates, reviews and monitors NES' policies and procedures. NES is regulated by FINRA and as such, NES policies and procedures are subject to review and examinations by FINRA.

Further, as part of the execution of the stock/ETF component, the Exchange will ensure that the execution price is within the intra-day high-low range for the day in that stock at the time the Complex Order is processed and within a certain price range from the current market pursuant to Options 3, Section 16(a) which will protect investors and the general public.[76] If the stock price is not within these parameters, the Complex Order is not executable and would be held on the order book or cancelled, consistent with

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75 See proposed Options 3, Section 16(e). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and Supplementary Material .09 to Options 3, Section 13.

76 See supra note 37.

Member instructions.[77] Before the migration of MRX to enhanced technology platform when the Exchange was offering stock-tied functionality, the third-party broker-dealer would ensure the execution price was within the intra-day high-low range. With the transition to NES, the Exchange would commence performing this check. Members who transact stock-tied functionality on MRX would therefore continue to be subject to the same execution price check with NES as they were before the migration. This intra-day high-low range check does not occur for certain Complex Orders auctions (e.g. Complex PIM Orders,[78] Complex Facilitation Orders[79] and Complex SOM Orders[80]) and also does not occur for Complex Customer Cross Orders[81] or Complex QCC Orders.[82] The Exchange believes that this exception for auctions is consistent with the Act because these auctions have their own rules for auction eligibility, entry checks, and offer price improvement all of which are distinguishable from execution of orders on the Complex Order Book. Complex Customer Cross Orders are automatically executed upon entry so

77 Similar to other order types, the Member may elect to enter the order as an Immediate-or-Cancel to avoid resting on the order book or as Day order which could rest on the order book.

78 A Complex PIM Order is an order entered into the Complex Price Improvement Mechanism as described in Options 3, Section 13(e). See MRX Options 3, Section 14(b)(18).

79 A Complex Facilitation Order is an order entered into the Complex Facilitation Mechanism as described in Options 3, Section 11(c). See MRX Options 3, Section 14(b)(16).

80 A Complex SOM Order is an order entered into the Complex Solicited Order Mechanism as described in Options 3, Section 11(e). See MRX Options 3, Section 14(b)(17).

81 See Options 3, Section 12(b).

82 See Options 3, Section 12(d).

long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Options 3, Section 14(c)(2). Complex Customer Cross Orders will be rejected if they cannot be executed.[83]

Finally, the Exchange also believes that it is appropriate to construct a program wherein its affiliate, NES, is the exclusive conduit for the execution of the stock/ETF component of a Complex Order under this proposal, identical to Phlx.[84] As a practical matter, complex order programs on other exchanges involve specific arrangements with a broker-dealer to facilitate prompt execution. NES does not intend to charge a fee for the execution of the stock/ETF component of a Complex Order.[85] The Exchange believes that is consistent with the Act for such an arrangement to involve one broker-dealer, even one that is an affiliate, particularly to offer the aforementioned benefits of a prompt, electronic execution for Complex Orders involving stock/ETFs. Specifically, offering a seamless, automatic execution for both the options and stock/ETF components of a Complex Order is an important feature that should promote just and equitable principles

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83 Supplementary Material .01 to Options 3, Section 22 applies to Complex Customer Cross Orders.

84 See supra note 41. See proposed Supplementary Material .02 to MRX Options 3, Section 14. In addition to amending Supplementary Material .02 to MRX Options 3, Section 14 to require Members to enter into a brokerage agreement, the Exchange proposes to make conforming changes to Supplementary Material .02 to MRX Options 3, Section 14 to delete provisions that allow Members to enter into a brokerage agreement with one or more brokers to route stock orders.

85 See supra note 42.

of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system by deeply enhancing the sort of complex order processing available on options exchanges today. Nevertheless, Members could, in lieu of this proposed arrangement with NES, choose, instead, the following alternatives: (i) avoid using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[86]

The Exchange's proposal to remove the second and third sentences within Supplementary Material .02 of Options 3, Section 14[87] is consistent with the Act in that it protects investors and the general public because this new workflow in which the stock or ETF component of the order will be routed to NES for execution instead of a third-party broker-dealer will obviate the possibility that the stock execution venue will be unavailable for trading while the order is being processed because of the efficiency created in executing the entire transaction, including stock component validation and reporting, without the need for MRX to utilize a third-party broker-dealer and await a response from the third-party broker-dealer. MRX would no longer be reliant on a third-party broker-dealer to conduct the appropriate checks and, thereafter, relay information to

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86 See supra note 43.

87 The second and third sentences of Supplementary Material .02 of MRX Options 3, Section 14 states, "A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed."

MRX. With the proposed change, NES, the Exchange's affiliate, would conduct the necessary checks and thereafter the Stock-Option Order or Stock-Complex Order would be available for execution. Proposed Options 3, Sections 16(d) and (e) describe the System price checks that will be performed for Stock-Option Orders or Stock-Complex Orders by NES.

Similarly, the Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14, is consistent with the Act. Similar to the discussion above, previously the applicable checks for the stock/ETF component of a Stock-Option Strategy and Stock-Complex Strategy were being performed by a third-party broker-dealer before the migration, which caused a delay that prevented these strategies from participating in the Complex Opening Process. With the proposed change to utilize NES, in lieu of a third-party broker-dealer, Stock-Option Strategies and Stock-Complex Strategies would be able to participate in the Complex Opening Process as NES, the Exchange's affiliate, would conduct the necessary price checks and would be able to make Stock-Option Order or Stock-Complex Order available to participate in the Complex Opening Process without the need for MRX to await a response from a third-party broker-dealer. This amendment is consistent with the Act as it serves to protect investors and the general public by improving the Exchange's processes to make Stock-Option Strategies and Stock-Complex Strategies subject to the Complex Opening Price Determination similar to other order types. The Complex

Opening Process seeks to maximize the interest which is traded during the Complex Opening Price Determination process and deliver a rational price for the available interest at the opening. The Complex Opening Price Determination process maximizes the number of contracts executed during the Complex Opening Process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the Opening Price.

Trade Value Allowance

The Exchange's proposal to no longer offer Trade Value Allowance is consistent with the Act because very few Members have opted to utilize the Trade Value Allowance and even a smaller percentage of trades were subject to the allowance. Phlx does not have a similar allowance today. In an effort to harmonize its complex order functionality across its Nasdaq affiliated markets, the Exchange proposes to no longer offer the Trade Value Allowance functionality. In addition, the Exchange believes that this proposal removes impediments to and perfect the mechanism of a free and open market and a national market system because the proposal removes an allowance that is no longer necessary; other options exchanges, like Phlx, do not offer such an allowance. With the proposed change to utilize NES, the Exchange would be able to determine stock leg prices, and NES would be able to execute the stock leg at two different prices to ensure that the net price of the execution is within the notional value of the original order, thus eliminating the need for the allowance.

Options 3, Section 7

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols is consistent with the Act. The

Exchange proposes to amend MRX Options 3, Section 7(t) related to QCC with Stock Orders to make clear that QCC with Stock Orders may only be entered through FIX. MRX has 2 order entry protocols, FIX and OTTO. QCC with Stock Orders may not be entered through OTTO. Members are required to have an order entry protocol to enter orders onto MRX.[88] The Exchange's proposal to add rule text to Options 3, Section 7(t) will clarify the functionality, thereby protecting investors and the general public.

Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders is consistent with the Act. The Exchange proposes to specifically amend Supplementary Material .02(d)(3) to Options 3, Section 7 to add QCC with Stock Orders and Complex QCC with Stock to the list of order types that have a Time in Force or "TIF" of Immediate-or-Cancel or "IOC." Because QCC with Stock Orders and Complex QCC with Stock have a TIF of IOC, these order types will execute either execute on entry or cancel. This amendment will make clear the manner in which the aforementioned order types trade, thereby protecting investors and the general public.

Options 3, Section 12

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and that the System will perform the calculation is consistent with the Act because the amended rule text makes clear the format in which these orders may be submitted to the System. Today, the Exchange does

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88 MRX offers each Member one FIX port at no cost. See Options 7, Section 6.

not allow FIX to accept QCC with Stock Orders with separate prices for the stock and options components. Each exchange may specify the manner in which certain order types may be submitted to an exchange and the format for submitting those orders. The proposal protects investors and the general public by clarifying the manner in which Members may submit QCC with Stock Orders. The proposed language does not result in a change to the Exchange's System. As noted above, QCC with Stock Orders may not be entered through OTTO. The Exchange notes that requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which requires Members to enter QCC Orders through FIX.

Options 3, Section 15

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language that would apply as a result of the proposed changes to stock-tied functionality is consistent with the Act. The first provision, the total number of orders entered is being amended to simply add "in the regular order book" to distinguish the single-leg order book from the complex order book. This amendment is non-substantive and would serve to clarify which order book is impacted.

The proposed changes to MRX Options 3, Section 15(a)(1)(C) protect investors and the public interest by clearly describing the operation of the Market Wide Risk Protection. As discussed above, the functionality of proposed MRX Options 3, Section 15(a)(1)(C)(2) through (5) is consistent with functionality that currently exists on ISE.[89]

[89] See ISE Options 3, Section 15(a)(1)(C)(2) through (5).

Proposed MRX Options 3, Section 15(a)(1)(C)(6) adds the total number of contracts traded in Stock-Option Orders and Stock-Complex Orders to the Market Wide Risk Protection. This change protects investors and the general public because this risk protection by expanding the scope of the Market Wide Risk Protection to include additional contracts which will reduce risk associated with system errors or market events that may cause Members to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. The Exchange notes that QCC Orders, Complex Qualified QCC Orders, QCC with Stock Orders, and Complex QCC with Stock Orders are considered, where applicable, in Options 3, Section 15(a)(1)(C)(1), (2), (4) and (5). Members will continue to be provided with the flexibility needed to appropriately tailor the Market Wide Risk Protection to their respective risk management needs.

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.

Re-Introduction of Stock-Related Strategies and Elimination of Trade Value Allowance

Stock-Tied Functionality

The Exchange's proposal to amend its stock-tied functionality and recommence offering this functionality does not impose an intra-market undue burden on competition as all Members may utilize the stock-tied functionality and would be uniformly subject to the requirements associated with executing a stock-tied transaction. Also, in lieu of this proposed arrangement with NES, Members could choose, instead, the following alternatives: (i) avoid using Complex Orders that involve stock/ETFs, (ii) use a trading floor to execute Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[90] The Exchange's proposal to amend its stock-tied functionality and recommence offering this functionality does not impose an inter-market undue burden on competition as other options exchanges today may offer a similar process for handling stock-tied transactions. Today, Phlx offers an identical process for handling stock-tied transactions.[91]

The Exchange's proposal to remove rule text from Options 3, Section 14 that states, "When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed," does not impose an undue burden on intra-market competition because the proposed new functionality will apply equally to all Members transacting Complex Orders on MRX. All Stock-Option Orders and Stock-Complex Orders will be handled in the same manner by the System. The Exchange's proposal to remove rule text from Options 3, Section 14 does not impose an undue burden on inter-market competition as the scope of this change is limited to MRX and its relationship with a broker-dealer handling the stock component of the order.

The Exchange's proposal to remove the rule text within Supplementary Material

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[90] See supra note 43.

[91] See Phlx Options 3, Sections 13(b)(10) and 14(a)(i).

.02 of Options 3, Section 14[92] does not impose an undue burden on intra-market competition because all Members will have the ability to use the new workflow in which the stock or ETF component of the order will be routed to NES for execution instead of a third-party broker-dealer. The proposed new functionality will apply equally to all Members transacting Complex Orders on MRX. All Stock-Option Orders and Stock-Complex Orders will be handled in the same manner by the System. Additionally, this proposed amendment will not impose an undue burden on inter-market competition because all market participants that direct orders to MRX will have their orders handled in a similar manner. The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report the stock or ETF component of a Complex Order.

Similarly, the Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14, does not impose an undue burden on intra-market competition because all Stock-Option Strategies

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92 Supplementary Material .02 of Options 3, Section 14 states that, "Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed."

and Stock-Complex Strategies will be subject to the same process. All Stock-Option Orders and Stock-Complex Orders will be transacted in the Complex Opening by the System. The Exchange's proposal to amend Supplementary Material .04 to Options 3, Section 14 to provide that Stock-Option Strategies and Stock-Complex Strategies will open pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14, instead of the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14 does not impose an undue burden on inter-market competition because other options markets may also elect to permit similar order types to trade in their complex opening process.

Trade Value Allowance

The Exchange's proposal to no longer offer Trade Value Allowance does not impose an undue burden on intra-market competition because no Member would be able to utilize the Trade Value Allowance. The proposed stock-tied functionality is identical to Phlx Options 3, Sections 13(b)(10)(ii) and 14(a)(i) with respect to utilizing NES to process and report the stock or ETF component of a Complex Order.

The Exchange's proposal to no longer offer Trade Value Allowance does not impose an undue burden on inter-market competition because other options exchanges could choose to offer a similar functionality.

Options 3, Section 7

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols does not impose an undue burden on intra-market competition because all Members may enter QCC with Stock Orders through FIX and the Exchange provides each Member with one FIX Port at no cost.

The Exchange's proposal to make a clarifying change to MRX Options 3, Section 7, Types of Orders and Order and Quote Protocols does not impose an undue burden on inter-market competition because other options exchanges may also create order entry protocols for their markets.

Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 to add QCC with Stock Orders and Complex QCC with Stock to the list of order types that have a Time in Force or "TIF" of Immediate-or-Cancel or "IOC" does not impose an undue burden on intra-market competition because this amendment reflects the description of these particular order types which will either execute on entry or cancel. All QCC with Stock Orders and Complex QCC with Stock that are entered on MRX will be handled in the same manner. Further, all Members may trade QCC with Stock Orders and Complex QCC with Stock Orders. Additionally, the Exchange's proposal to amend Supplementary Material .02(d) to Options 3, Section 7 related to Immediate-or-Cancel Orders does not impose an undue burden on inter-market competition because other options markets may adopt a similar requirement for such orders.

<u>Options 3, Section 12</u>

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and the System will calculate the individual component prices does not impose an intra-market burden on competition because all Members are required to uniformly submit QCC with Stock Orders in this fashion.

The Exchange's proposal to amend Options 3, Section 12(e)(4) to clarify that a Member may submit a QCC with Stock Order with a net price for the stock and options components through FIX and may not submit QCC with Stock Orders with separate prices for the stock and options components and the System will calculate the individual component prices does not impose an inter-market burden on competition because each exchange may specify the manner in which certain order types may be submitted to an exchange and the format for submitting those orders. Also, requiring QCC with Stock Orders to be submitted through FIX is consistent with proposed Options 3, Section 7(t) which requires Members to enter QCC Orders through FIX.

Options 3, Section 15

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(1)(C) to add certain additional information concerning the current Market Wide Risk Protection along with new language does not impose an undue burden on intra-market competition because the counting programs within the Market Wide Risk Protections will apply equally to all Members. The proposal to amend the Market Wide Risk Protection does not impose an undue burden on inter-market competition because other options exchanges may adopt similar risk protections for their members.

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 Act[93] and subparagraph (f)(6) of Rule 19b-4 thereunder.[94]

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MRX-2023-10 on the subject line.

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93 15 U.S.C. 78s(b)(3)(A)(iii).

94 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Paper comments:

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

All submissions should refer to File Number SR-MRX-2023-10. 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-2023-10 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.[95]

J. Matthew DeLesDernier
Assistant Secretary

[95] 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 Rules

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Options 3 Options Trading Rules

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Section 7. Types of Orders and Order and Quote Protocols

[MRX will migrate symbols to an enhanced platform ("Platform") pursuant to a symbol migration commencing in the fourth quarter of 2022. QCC with Stock Orders, Stock-Option Orders, Stock-Complex Orders, and Complex QCC with Stock Orders, as defined in Options 3, Section 7(t) and Sections 14(a)(2), (a)(3), and (b)(15), respectively, will not be available for symbols that migrated to the Platform. The Exchange will specify the symbol migration schedule in an Options Trader Alert to be issued by the Exchange. The Exchange will recommence the availability of QCC with Stock Orders, Stock-Option Orders, Stock-Complex Orders, and Complex QCC with Stock Orders prior to one year from the start of migration to the Platform to be announced in a separate Options Trader Alert.]

* * * * *

(t) **QCC with Stock Orders**. A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in subparagraph (j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12(e). <u>QCC with Stock Orders may only be entered through FIX.</u>

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Supplementary Material to Options 3, Section 7

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.02 **Time in Force**. The term "Time in Force" or "TIF" shall mean the period of time that the System will hold an order for potential execution, and shall include:

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

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

(2) IOC orders may be entered through FIX, OTTO or SQF, provided that an IOC order entered by a Market Maker through the Specialized Quote Feed protocol will not be subject to the (A) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (B) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders.

(3) Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIM Orders, Complex PIM Orders, QCC Orders, QCC Complex Orders, <u>QCC with Stock Orders, Complex QCC with Stock Orders,</u> Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

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Section 11. Auction Mechanisms

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Supplementary Material to Options 3, Section 11

[MRX will migrate symbols to an enhanced platform ("Platform") pursuant to a symbol migration commencing in the fourth quarter of 2022. Stock-Option Orders and Stock-Complex Orders as described below in Options 3, Section 11(c) will not be available for symbols that migrated to the Platform. The Exchange will specify the symbol migration schedule in an Options Trader Alert to be issued by the Exchange. The Exchange will recommence the availability of Stock-Option Orders and Stock-Complex Orders prior to one year from the start of migration to the Platform to be announced in a separate Options Trader Alert.]

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<u>.08 Complex Facilitation and Complex SOM Orders with stock/ETF components.</u>

<u>(a) Members may only submit Complex Facilitation Orders, Complex SOM Orders, and/or Responses with a stock/ETF component if such orders/Responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade orders containing a stock/ETF component.</u>

(b) Where one component of a Complex Facilitation Order, Complex SOM Order, and/or Response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Facilitation Order or Complex SOM Order to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). If the stock price is not within these parameters, the Complex Facilitation Order, Complex SOM Order, and/or Response is not executable and would be cancelled.

(c) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Facilitation Order, Complex SOM Order and/or Response if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Facilitation Order, Complex SOM Order and/or Response if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Facilitation Order, Complex SOM Order and/or Response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Facilitation Order, Complex SOM Order and/or Response to the entering Member. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

Section 12. Crossing Orders
[MRX will migrate symbols to an enhanced platform ("Platform") pursuant to a symbol migration commencing in the fourth quarter of 2022. QCC with Stock Orders and Complex QCC with Stock Orders as described below in Options 3, Sections 12(e) and (f), respectively, will not be available for symbols that migrated to the Platform. The Exchange will specify the symbol migration schedule in an Options Trader Alert to be issued by the Exchange. The Exchange will recommence the availability of QCC with Stock Orders and Complex QCC with Stock Orders prior to one year from the start of migration to the Platform to be announced in a separate Options Trader Alert.]

* * * * *

(b) Complex Customer Cross Orders. Complex Orders may be entered as Customer Cross Orders, as defined in Options 3, Section 7(i). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Options 3, Section 14(c)(2). Complex Customer Cross Orders will be rejected if they cannot be executed. Supplementary Material .01 to Options 3, Section 22 applies to Complex Customer Cross Orders.

(1) Members may only submit Complex Customer Cross Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade orders containing a stock/ETF component.

(2) Where one component of a Complex Customer Cross Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Customer Cross Order to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market, as determined by the Exchange. If the stock price is not within these parameters, the Complex Customer Cross Order is not executable.

(3) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Customer Cross Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Customer Cross Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Customer Cross Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Customer Cross Order to the entering Member. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

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(e) Qualified Contingent Cross ("QCC") with Stock. QCC with Stock Orders are processed as follows:

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(4) QCC with Stock Orders [can]must be entered with a net price for the stock and options components through FIX.[separate prices for the stock and options components, or with a net price for both.] The System will calculate the individual component prices.

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Section 13. Price Improvement Mechanism for Crossing Transactions

[MRX will migrate symbols to an enhanced platform ("Platform") pursuant to a symbol migration commencing in the fourth quarter of 2022. Stock-Option Orders and Stock-Complex Orders as described below in Options 3, Section 13(e) will not be available for symbols that migrated to the Platform. The Exchange will specify the symbol migration schedule in an Options Trader Alert to be issued by the Exchange. The Exchange will recommence the availability of Stock-Option Orders and Stock-Complex Orders prior to one year from the start of migration to the Platform to be announced in a separate Options Trader Alert.]

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Supplementary Material to Options 3, Section 13

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.09 Complex PIM Orders with stock/ETF components.

(a) Members may only submit Complex PIM Orders and/or Improvement Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative ("QSR") arrangement with NES in order to trade orders containing a stock/ETF component.

(b) Where one component of a Complex PIM Order and/or Improvement Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIM Order (together with the Agency Order or Improvement Order, as applicable) to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market pursuant to Options 3, Section 16(a), as determined by the Exchange. If the stock price is not within these parameters, the Complex PIM Order and/or Improvement Order is not executable and would be cancelled.

(c) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex PIM Order and/or Improvement Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex PIM Order and/or Improvement Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex PIM Order and/or Improvement Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIM Order and/or Improvement Order to the entering member. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

Section 14. Complex Orders

[MRX will migrate symbols to an enhanced platform ("Platform") pursuant to a symbol migration commencing in the fourth quarter of 2022. Stock-Option Strategies, Stock-Complex Strategies, Complex QCC with Stock Orders, and QCC with Stock Orders, as defined in Options 3, Sections 14(a)(2) and (3) and (b)(15), and Options 3, Section 7(t), respectively, will not be available for symbols that migrated to the Platform. The Exchange will specify the symbol migration schedule in an Options Trader Alert to be issued by the Exchange. The Exchange will recommence the availability of Stock-Option Strategies, Stock-Complex Strategies, Complex QCC with Stock Orders, and QCC with Stock Orders, as defined in Options 3, Sections 14(a)(2) and (3) and (b)(15), and Options 3, Section 7(t), respectively, prior to one year from the start of migration of symbols to the Platform as announced in a separate Options Trader Alert.

Additionally, Trade Value Allowance as defined in Supplementary Material .03 to Options 3, Section 14 will not be available for symbols that migrated to the Platform. The Exchange will recommence the availability of Trade Value Allowance, as defined in Supplementary Material 0.3 to Options 3, Section 14, prior to one year from the start of migration of symbols to the Platform as announced in a separate Options Trader Alert.]

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Supplementary Material to Options 3, Section 14

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.02 **Stock-Option and Stock-Complex Orders**. The Exchange will electronically communicate the stock leg of an executable Stock-Option Order and Stock-Complex Order to [a broker-dealer]NES for execution. To execute Stock-Option Orders and Stock-Complex Orders on the Exchange, Members must enter into a brokerage agreement with NES.[a broker-dealer designated by the Exchange. The Member may also enter into a brokerage agreement with one or more other broker-dealers to which the Exchange is able to route stock orders.] The Exchange will automatically transmit the stock leg of a trade to NES.[one-or more broker-dealer(s) with whom a Member has an agreement for execution on behalf of the Member using routing logic that takes into consideration objective factors such as execution cost, speed of execution and fill-rates. The Exchange will have no financial arrangements with the brokers with respect to routing stock orders to them. Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed.]

.03 Reserved.[**Trade Value Allowance**. To facilitate the execution of the stock leg and options leg(s) of Stock-Option Strategies and Stock-Complex Strategies at valid increments pursuant to subparagraph (c)(1), Stock-Option Strategies and Stock-Complex Strategies may trade outside of their expected notional trade value by a specified amount ("Trade Value Allowance"). The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the Member, or a default value determined by the Exchange and announced to Members; provided that any amount of Trade Value Allowance is permitted in complex mechanisms pursuant to Options 3, Sections 11 and 13 when auction orders do not trade solely with their contra-side order.]

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.04 **Complex Opening Process**. After each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to this Rule, [and Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule].

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.07 **Qualified Contingent Trade Exemption**. Members may only submit Complex Orders in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Exchange Act. Members submitting Complex Orders in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market (“Nasdaq”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Execution Services, LLC (“NES”) in order to trade Complex Orders in Stock-Option Strategies and Stock-Complex Strategies; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative (“QSR”) arrangement with NES in order to trade Complex Orders in Stock-Option Strategies and Stock-Complex Strategies. In addition, the stock leg of a stock-option order must be marked “buy,” “sell,” “sell short,” or “sell short exempt” in compliance with Regulation SHO under the Exchange Act.

Section 15. Simple Order Risk Protections

(a) The following risk protections are automatically enforced by the System. In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.

(1) The following are order risk protections on MRX:

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(C) **Market Wide Risk Protection**. All Members must provide parameters for the order entry and execution rate protections described in this Rule. The Exchange will also establish default values for each of these parameters that apply to Members that do not submit the required parameters, and will announce these default values in an Options Trader Alert to be distributed to Members. The System will maintain one or more counting programs for each Member that count orders entered and contracts traded on Nasdaq MRX. Members can use multiple counting programs to separate risk protections for different groups established within the Member. The counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of [contracts traded.]Complex Option Orders entered in the complex order book; (3) the total number of Stock-Option and Stock-Complex Orders entered into the complex order book; (4) the total number of contracts traded in regular orders; (5) the total number of contracts traded in Complex Options Orders; and (6) the total number of contracts traded in Stock-Option and Stock-Complex Orders entered into the complex order book. The minimum and maximum duration of the applicable time period will be established by the Exchange and announced via an Options Trader Alert.

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Section 16. Complex Order Risk Protections

The following are Complex Order risk protections on MRX:

(a) **Price limits for Complex Orders**. As provided in Options 3, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed $0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO for the options series or any stock component, as applicable ("Do-Not-Trade-Through" or "DNTT").

* * * * *

(d) **Stock-Tied NBBO.** For Complex Orders in Stock-Option Strategies and Stock-Complex Strategies, the Exchange shall electronically communicate the underlying security component of a Complex Order to Nasdaq Execution Services, LLC ("NES"), its designated broker dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. NES will ensure that the execution price is within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market pursuant to Options 3, Section 16(a). If the stock price is not within these parameters, the Complex Order is not executable and the Exchange will hold the Complex Order on the Order Book, if consistent with Member instructions.

(e) **Stock-Tied Reg SHO.** When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order Book, if consistent with Member instructions. The order may execute at a price that is not equal to or below the current national best bid. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

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