Required fields are shown with yellow backgrounds and asterisks.

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

File No. * SR 2024 - * 71
Amendment No. (req. for Amendments *)

Filing by Nasdaq PHLX 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 *).

A proposal to amend Various Phlx Rules in Connection with a Technology Migration.

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

Date 12/12/2024

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: 2024.12.12
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Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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SR-Phlx-2024-71 19b-4.docx

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

Exhibit 1 - Notice of Proposed Rule Change *

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SR-Phlx-2024-71 Exhibit 1.docx

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

Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies *

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

Exhibit 2- Notices, Written Comments, Transcripts, Other Communications

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

☐ Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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

☐ Exhibit Sent As Paper Document

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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SR-Phlx-2024-71 Exhibit 5.docx

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) Nasdaq Phlx LLC ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to amend Options 2, Section 6, Market Maker Orders. The Exchange also proposes to amend the following Options 3 Rules: Section 4, Entry and Display of Quotes; Section 6, Firm Quotations; Section 7, Types of Orders and Order and Quote Protocols; Section 8, Opening Process; Section 9, Trading Halts; Section 10, Electronic Execution Priority and Processing in the System; Section 15, Simple Order Risk Protections; Section 23, Data Feeds and Trade Information; and Section 28, Optional Risk Protections. The Exchange also proposes to amend Options 5, Section 4, Order Routing; Options 6, Section 1, Authorization to Give-Up; Options 7, Section 9, B, Port Fees; and Options 8, Section 32, Types of Floor-Based (Non-System) Orders.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the "Board"). Exchange staff

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

[2] 17 CFR 240.19b-4.

will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

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

3. 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 which will result in higher performance, scalability, and more robust architecture, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq affiliate exchanges. As further discussed below, the Exchange is proposing to adopt such functionality substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

Specifically, the Exchange proposes to amend Options 2, Section 6, Market Maker Orders and the following Options 3 Rules: Section 4, Entry and Display of Quotes; Section 6, Firm Quotations; Section 7, Types of Orders and Order and Quote Protocols; Section 8, Opening Process; Section 9, Trading Halts; and Section 10, Electronic Execution Priority and Processing in the System;[3] Section 15, Simple Order Risk Protections; Section 23, Data Feeds and Trade Information; and Section 28, Optional Risk Protections. The Exchange also proposes to amend Options 5, Section 4, Order Routing; Options 7, Section 9, B, Port Fees; and Options 8, Section 32, Types of Floor-Based (Non-System) Orders. Each rule change is described below.

Options 2, Section 6

Options 2, Section 6(a) currently states that Market Makers[4] and Lead Market Makers[5] may enter all order types defined in Options 3, Section 7(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Options 3, Section 7(b)(1), Stop Orders as provided in Options 3, Section 7(b)(4), All-or-None Orders as provided in Options 3, Section 7(b)(5), Directed Orders as provided for in Options 2, Section 10, and Public Customer-to-Public Customer Cross Orders subject to Options 3, Section 13(a) and (f).

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3 Phlx Options 1, Section 1(b)(57) provides, [t]he term "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises: (i) an order execution service that enables members to automatically execute transactions in option series; and provides members with sufficient monitoring and updating capability to participate in an automated execution environment; (ii) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority ("OPRA") for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and (iii) the data feeds described at Options 3, Section 23.

4 A "Market Maker" means a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System. See Options 1, Section 1(b)(28).

5 A "Lead Market Maker" means a member who is registered as an options Lead Market Maker pursuant to Options 2, Section 12(a). A Lead Market Maker includes a Remote Lead Market Maker which is defined as a Lead Market Maker in one or more classes that does not have a physical presence on the Exchange's Trading Floor and is approved by the Exchange pursuant to Options 2, Section 11. See Options 1, Section 1(b)(27).

The Exchange proposes to remove the Market Maker restrictions related to Market Orders,[6] Stop Orders,[7] All-or-None Orders[8] and Directed Orders[9] so as not to restrict the ability of a Lead Market Maker or Market Maker from entering orders they may enter today on other options markets.[10] With this proposed change, Market Makers would be permitted to enter Market Orders, Stop Orders and All-or-None Orders similar to other market participants, and similar to market makers on ISE, GEMX and MRX, as explained below in greater detail. Also, today, Market Makers may enter all Complex Order types. To make this clear in the rule text, the Exchange proposes to reference

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6 A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Lead Market Makers, Market Makers, and Off-Floor Broker-Dealers may not submit Market Orders. See Phlx Options 3, Section 7(b)(1).

7 A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Lead Market Makers and Maker Makers may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order. See Phlx Options 3, Section 7(b)(4).

8 An All-or-None Order is a Limit Order or Market Order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer as an Immediate-or-Cancel Order. The Acceptable Trade Range protection in Options 3, Section 15(a) is not applied to All-Or-None Orders. See Phlx Options 3, Section 7(b)(5).

9 The term "Directed Order" means any order to buy or sell which has been directed to a particular Lead Market Maker, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via the System. See Phlx Options 2, Section 10.

10 The Exchange proposes to delete the term "Lead Market Makers" in Options 2, Section 6(a) as the term "Market Makers" includes "Lead Market Makers." Both terms are not necessary. Additionally, removing the term "Lead Market Makers" harmonizes the rule text in Phlx Options 2, Section 6(a) to ISE, GEMX, MRX and BX Options 2, Section 6(a).

Options 3, Section 14, which governs Complex Orders, in addition to referencing Options 3, Section 7(b), which governs simple orders.[11]

Additionally, as currently noted in Options 3, Section 7(e), Off-Floor Broker-Dealers may not enter All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f). The Exchange is also proposing to remove the restrictions applicable to Off-Floor Broker-Dealers. Today, Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") Options 2, Section 6 do not provide similar restrictions as Phlx for Market Orders, Stop Orders and All-or-None Orders.

The Exchange proposes to permit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter Market Orders and Stop Orders similar to all other market participants on Phlx. Today, all market participants, including Lead Market Makers, Market Makers and Off-Floor Broker Dealers[12] may transact Market Orders and Stop Orders on other options markets.[13] The Exchange does not believe there is any reason to restrict Lead Market Makers, Market Makers and Off-Floor Broker Dealers from entering Market Orders or Stop Orders. Previously, in a 2019 rule change[14] Phlx noted that it

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11 Today, Options 3, Section 14 includes all Complex Order Types that may be traded by any market participant.

12 Phlx Options 1, Section 1(b)(33) provides, [t]he term "Off-Floor Broker-Dealer Order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

13 See Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX) Options 2, Section 6 and NYSE Arca, Inc. Rule 6.37B-O and NYSE American LLC Rule 925.2NY.

14 See Securities Exchange Act Release No. 87691 (December 9, 2019), 85 FR 68197 (December 13, 2019) (SR-Phlx-2019-52) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Order Types and Remove and Relocate Certain Rule Text Currently Located Within Rule 1080).

believed that prohibiting Market Makers from entering Market Orders was consistent with the Act because Market Orders are designed to remove liquidity from the Order Book. Further, that rule change noted that Stop Orders are non-displayed order types until they are triggered which does not benefit the role of a Market Makers in displaying liquidity on the Order Book.[15] Stop Orders are triggered by either the occurrence of a transaction or posting on the order book. Once triggered, the order becomes displayed as either a Market Order or Limit Order as described in greater detail below in the discussion of Stop Orders in Options 3, Section 7. At this time, the Exchange proposes to permit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter both Market Orders and Stop Orders. Today, ISE, GEMX and MRX do not prohibit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers from entering a Market Order and Stop Order on those markets, and those markets have not observed any adverse consequences. Also, current Phlx Options 2, Section 6 restricts the number of contracts that a Market Maker may enter in a quarter,[16] thereby preventing Market Makers from entering an unlimited quantity of orders. In addition, the Exchange would no longer prohibit an Off-Floor Broker Dealer from entering a Market Order for the same reasons.[17] All Market Makers, including away market makers, are restricted to a total number of contracts executed during a quarter in options series to which it is not appointed of

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15 Id.

16 Pursuant to Phlx Options 2, Section 6, the total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

17 Current Phlx Options 3, Section 7(e) provides that, an off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f).

twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series as all options markets impose this restriction on market makers. The Exchange does not believe there is any reason to restrict Off-Floor Broker Dealers from entering Market Orders in options classes, rather, the Exchange proposes to permit all member organizations to be able to enter Market Orders. Finally, the Exchange believes that harmonizing the ability for Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter both Market Orders and Stop Orders across ISE, GEMX, MRX and Phlx will allow market participants to enter equivalent order types on all these markets. For these reasons, Phlx believes Lead Market Makers, Market Makers and Off-Floor Broker Dealers should be permitted to utilize Market Orders and Stop Orders to remove liquidity from its order book without impacting their ability to provide liquidity.

Today, Phlx restricts all market participants from entering All-or-None Orders except Public Customers.[18] Similar to other options markets, the Exchange proposes to permit all market participants to enter All-or-None Orders. The Exchange is proposing to amend the All-or-None Order type in Options 3, Section 7 to reflect this proposed change as explained further below. By way of background, in 2019, the Exchange amended its All-or-None Order to no longer offer the order type to Professionals.[19] At the time, the Exchange noted that permitting Public Customers to enter All-or-None Orders with specific size limitations that rest on the Order Book would continue to allow Public

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18 This includes Off-Floor Broker Dealers as noted in current Options 3, Section 7(e).

19 See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (March 13, 2019) (SR-Phlx-2019-03) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Option Floor Procedure Advice A-9 and Phlx Rules 1000 and 1066 and To Adopt a New Phlx Rule 1078). Prior to this rule change, All-or-None Orders were available to Public Customers and Professionals, ("2019 AON Rule Change").

Customers the opportunity to obtain fills for their orders when the market moves even if the All-Or-None Order was not immediately executable upon entry. The Exchange notes that in 2023, it amended All-or-None Orders so that they would no longer rest on the order book, rather the order type would be executed in its entirety, or it will cancel if it cannot execute.[20] With this change, the prior reasoning is no longer a reason to restrict the order type to Public Customer use only. The Exchange proposes to remove the restriction that only permits Public Customers to enter the order type and allow all market participants to utilize the All-or-None Order which now does not rest on the order book. The Exchange proposes to reflect the removal of the restriction in Options 2, Section 6 to reflect the fact that Market Makers would be able to trade All-or-None Orders. The Exchange also explains this change below in Options 3, Section 7 with respect to the order type amendments for All-or-None Orders. Permitting all market participants to enter an AON Order will harmonize the order type to ISE, GEMX and MRX Options 3, Section 7(c) which also permit all market participants to utilize this order type.

The Exchange notes that Directed Orders are orders directed to a Market Maker by an Order Flow Provider. An order becomes a Directed Order when it interacts with a Market Maker quote that is at the NBBO at the time of receipt of the Directed Order. The Exchange believes it is misleading to include a Directed Order in this list because a Directed Order may be executed by a Market Maker.

Third, the Exchange proposes to amend “Public Customer-to-Public Customer Cross Orders” to “Customer Cross Orders” to align with the name of this order type on

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20 See Securities Exchange Act Release No. 98142 (August 16, 2023), 88 FR 57140 August 22, 2023) (SR-Phlx-2023-34) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Phlx's All-or-None Order) (“2023 AON Rule Change”).

ISE, GEMX and MRX Options 3, Section 7(i). The Exchange proposes to relocate the definition of Public Customer-to-Public Customer Cross Orders" from Options 3, Section 13 to proposed Options 3, Section 7(i). A Customer Cross Order cannot be entered by a Market Maker. The Exchange believes noting this exception in this order type will bring greater transparency to Options 2, Section 6. Additionally, the Exchange proposes to adopt a Reserve Order at Options 3, Section 7(g). A Reserve Order is a limit order with a displayed and non-displayed portion.

The Exchange believes that Market Maker liquidity should be displayed liquidity.[21] For these reasons, and to remain competitive with other markets, the Exchange proposes to permit Market Makers to enter all orders they are eligible to submit, with the exception of Reserve Orders, and restrict Reserve Orders in the non-appointed classes similar to ISE, GEMX and MRX Options 2, Section 6. As noted above, Market Makers are not able to enter Reserve Orders.

The Exchange also proposes to amend the rule citations to align with the relocated rule text. Finally, the Exchange proposes to renumber the remainder of the text within Options 2, Section 6, related to total number of contracts that may be executed in a quarter, as new "b." The proposed rule text of Options 2, Section 6 will align with ISE, GEMX and MRX Options 2, Section 6.

Options 3, Section 4

With respect to quotes, today, as set forth in Options 3, Section 4(b)(6), if, at the time of entry, a quote would cause a locked or crossed market violation or would cause a

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[21] While Stop Orders are not displayed until triggered, the Exchange notes that once triggered a Stop Order would be displayed as either a Market or Limit Order.

trade-through violation, it will either be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed and displayed at one minimum price variance above (for offers) or below (for bids) the national best price. The Exchange now proposes to amend the quote re-pricing mechanism currently described in Phlx Options 3, Section 4(b)(6) by harmonizing it with ISE, GEMX and MRX Options 3, Section 4(b)(6). As amended, the quote re-pricing language in Options 3, Section 4(b)(6) would be amended to provide: "If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, *or immediately cancelled, as configured by the member organization*." With this amendment, Phlx would permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote. The Exchange believes this functionality will provide member organizations with more flexibility in handling their quotes.

Further, the Exchange proposes to remove the Quote Exhaust functionality which is explained further below. In connection with the removal of that functionality, the Exchange proposes to amend Options 2, Section 6(b)(8) to remove a reference to the Quote Exhaust.

<u>Options 3, Section 6</u>

Currently, Options 3, Section 6, Firm Quotations, describes the Exchange's Quote

Exhaust functionality that was adopted in 2009.[22] Quote Exhaust occurs when the Exchange's disseminated market at a particular price level includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order through the initial execution price.[23] The initial execution price that gives rise to Quote Exhaust is known as the "reference price."[24] Under Quote Exhaust, any order volume that is routed to away markets will be marked as an ISO.[25] When a Quote Exhaust occurs, the System will initiate a "Quote Exhaust Timer" that applies to all options traded on the System, not to exceed one second, during which any participant (including any participant(s) whose size was exhausted) may submit quotes, sweeps or orders at any price level.[26] Today, during the Quote Exhaust Timer, the Exchange will disseminate the reference price for the remaining size, provided that such price does not lock an away market, in which case, the Exchange will disseminate a bid and offer that is one MPV from the away market price. Today, the Exchange will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. If the remaining

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22 See Securities Exchange Act Release No. 59721 (April 9, 2009), 74 FR 17245 (April 14, 2009) (SR-Phlx-2009-32) (Notice of Filing of Proposed Rule Change Relating to the Exchange's Enhanced Electronic Trading Platform for Options, Phlx XL II).

23 See Phlx Options 3, Section 6(a)(2)(B)(2).

24 Id.

25 Id.

26 See Phlx Options 3, Section 6(a)(2)(B)(2)(a).

contracts in the initiating quote or order are either traded or cancelled during the Quote Exhaust Timer, the Quote Exhaust Timer will be terminated, and normal trading will resume.[27]

Today, if the Exchange receives an order, quote or sweep on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that locks or crosses the reference price at any time during the Quote Exhaust Timer, it will execute immediately against the initiating quote or order at the reference price. If the initiating quote or order that caused the Quote Exhaust is exhausted, the Quote Exhaust Timer will be terminated. Today, with respect to any order, quote or sweep received on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that is inferior to the reference price, the system will place any non-IOC order onto the book. Such non-IOC order on the book will be included in the first PBBO calculation following the end of the Quote Exhaust Timer. All non-marketable sweeps and IOC orders will be cancelled immediately if not executed and will not participate in the Quote Exhaust process.[28] Today, if the Exchange receives an order, quote or sweep on the same side of the market as the initiating quote or order during the Quote Exhaust Timer, the System will cancel any such sweep or IOC order. If such new quote or order, other than an IOC order, is a market or marketable Limit Order or marketable quote (i.e., priced at or through the reference price) the System will display it at the reference price, with a disseminated size that is the sum of such order and/or quote plus the remaining contracts in the initiating order or quote.[29]

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27 See Phlx Options 3, Section 6(a)(2)(B)(2)(b).

28 See Phlx Options 3, Section 6(a)(2)(B)(2)(c).

29 See Phlx Options 3, Section 6(a)(2)(B)(2)(d).

Today, at the end of the Quote Exhaust Timer, if there are still unexecuted contracts remaining in the initiating quote or order or any new interest on the same side of the market, the System will calculate a new Phlx Best Bid/Offer ("PBBO"). The PBBO includes the remaining unexecuted portion of the initiating quote or order plus any new interest received on the same side of the market at the reference price, or if locking or crossing the ABBO, at one minimum trading increment away from the ABBO, for the full available size. The other side of the PBBO will be the actual Exchange interest at the best price.[30]

Today, the System will conduct an Acceptable Range Test to determine if the next available price on the Exchange is within an Acceptable Range.[31] The System will first determine whether to trade at the next available Phlx price by comparing it to the Acceptable Range price (defined as, with respect to an initiating buy order, the highest price of the Acceptable Range, and, with respect to an initiating sell order, the lowest price of the Acceptable Range) and the Away Best Bid/Offer ("ABBO") price to establish a "Best Price".[32] Current Options 3, Section 6(g)(1) describes the Best Price. The current rules review the various potential scenarios including where the initiating quote or order does not lock the Best Price, locks the Best Price, crosses the Best Price, the order is not routable, and remainders.[33] The current rule also considers scenarios where there are no offers on the Exchange and on away markets in the affected series, or

30 See Phlx Options 3, Section 6(a)(2)(B)(2)(e).

31 See Phlx Options 3, Section 6(a)(2)(B)(2)(f).

32 See Phlx Options 3, Section 6(a)(2)(B)(2)(g).

33 See Phlx Options 3, Section 6(a)(2)(B)(2)(g)(1)-(6).

no bids or a zero priced bid on Exchange.[34]

Today, with Quote Exhaust, the Exchange disseminates an updated bid and offer prices together with the size associated with such bid and offer in certain cases.[35] All quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders[36] at the disseminated price in an amount up to the disseminated size,[37] except in certain cases.[38] Finally, today, responsible brokers or dealers that receive an order to buy or sell a listed option at the disseminated price in an amount greater than the disseminated size shall, within thirty (30) seconds of receipt of the order, (i) execute the entire order at the disseminated price (or better), or (ii) execute

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34 See Phlx Options 3, Section 6(a)(2)(B)(3).

35 See Phlx Options 3, Section 6(a)(2)(C).

36 Phlx Supplementary .01 to Options 3, Section 6 provides, "Broker-dealer orders" includes orders for the account(s) of market makers on another exchange and Market Makers on the Exchange.

37 Phlx Options 3, Section 6(b)(1) provides in pertinent part that, except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size. If the responsible broker or dealer is representing (as agent) a Limit Order, such responsible broker or dealer shall be responsible (as agent) up to the size of such Limit Order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such Limit Order to the extent provided in General 2, Section 17. Phlx Options 2, Section 6(b)(2) provides in pertinent part that, in the event an SQT, RSQT or Lead Market Maker in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or Lead Market Maker member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

38 Phlx Options 2, Section 6(c) provides in pertinent part that, the requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.

that portion of the order equal to the disseminated size at the disseminated price (or better), and revise its bid or offer.[39]

Quote Exhaust was designed to enhance the process for refreshing a Market Maker's quote that has been fully exhausted by an incoming quote or order that has, after exhausting the Phlx quote at a particular price level, remaining size to be executed at a price through the reference price. The Quote Exhaust functionality was intended to provide an opportunity for remaining portions of incoming quotes or orders to be executed on the Exchange at prices that are equal to or better than away markets by allowing Market Makers to refresh their quotes before routing away, thus potentially providing better prices at which to execute such remaining portions. Quote Exhaust is intended to provide an opportunity for such quote or order to receive a price for that order better than the next price that would otherwise be available on Phlx whether by executing on the Phlx or by routing to applicable away markets. This functionality implements price checks to limit executions at far away prices.

At this time, Phlx proposes to discontinue Quote Exhaust. Today, the Exchange offers various risk protections in its System to limit executions at far away prices. Phlx offers an Acceptable Trade Range protection at Options 3, Section 15(b)(1) and an Automated Quotation Adjustments protection at Options 3, Section 15(c)(2). In light of these additional protections and other risk protections that the Exchange is adding with this proposal within Options 3, Section 15, the Exchange does not believe that the Quote Exhaust protection is required any longer. Other Nasdaq affiliated exchanges do not offer Quote Exhaust. Once discontinued, the Exchange's quoting functionalities will

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[39] See Phlx Options 2, Section 6(d).

continue to abide by Phlx's Options 3, Section 4 rules governing the entry and display of orders and the allocation methodology in Options 3, Section 10. By way of example,

Market Maker quotes 1.00 (100) x 1.10 (100)

FIX Order to Sell 101 @ 0.95 arrives

Order trades 100 @ 1.00 with the quote

The quote purges as its entire bid side volume were exhausted

The remaining 1 contract books

Today, the Quote Exhaust timer begins – the reference price is displayed for the remaining 1 contract of the initiating sell order, and the displayed bid is disseminated to OPRA with a 'non-firm' indicator; Dissemination is 0.00 (0) x 1.00 (1), bid not firm

Quote Exhaust timer concludes

Today, a firm quote is now disseminated to OPRA; dissemination is 0.00 (0) x 0.95 (1)

As proposed, without Quote Exhaust, there will be no period during which the order is disseminated at the Quote Exhaust Reference Price; instead, the order's remainder will book and display at its limit price right away. The Exchange will continue to purge the other side of the quote due to one side being exhausted, as is the case today on ISE, GEMX, MRX that do not have a similar quote exhaust mechanism.

Without Quote Exhaust:

Market Maker quotes 1.00 (100) x 1.10 (100)
FIX Order to Sell 101 @ 0.95 arrives
Order trades 100 @ 1.00 with the quote
The quote purges as its entire bid side volume were exhausted
The remaining 1 contract books
A firm quote is disseminated to OPRA; dissemination is 0.00 (0) x 0.95 (1)

With respect to the interaction between the Quote Exhaust and risk protections, the Exchange notes that instead of first being posted at the Quote Exhaust Reference Price, aggressively priced orders can instead post right away at the Acceptable Trade

Range Threshold[40], allowing for quicker order execution while still providing order exposure and pauses between price bands, which continues to allow for risk mitigation. By way of example,

> *Note that the configured Acceptable Trade Range (ATR) price band is $0.07 in the price range used in this example.*
>
> Market Maker1 quotes 2.00 (10) x 2.12 (10)
>
> Firm enters FIX Order to Buy 10 @ 1.80
>
> Public Customer enters FIX Market Order to Sell 20 @ MKT
>
> *Trades 10 @ 2.00 with Market Maker1's quote*
>
> *Market Maker 1's quote is purged as its entire bid side volume has been exhausted*
>
> *Quote exhaust commences and displays the remainder of the Public Customer's market order at the quote exhaust reference price, disseminating to OPRA: 1.80 (10) x 2.00 (10), bid not firm*
>
> *Quote exhaust timer passes*
>
> *The remainder of the Public Customer's market order now posts at the Acceptable Trade Range (ATR) Threshold of 1.93, disseminating to OPRA: 1.80 (10) x 1.93 (10), bid not firm*
>
> *ATR Posting Period (iteration #1) passes*
>
> *The remainder of the Public Customer's market order now posts at the new ATR Threshold of 1.86, disseminating to OPRA: 1.80 (10) x 1.86 (10), bid not firm ATR Posting Period (iteration #2) passes*
>
> *The remainder of the Public Customer's market order now trades with the Firm FIX order on the book, 10 @ 1.80*

With this proposal, Quote Exhaust will no longer occur; after trading with Market Maker 1's quote, the remainder of the Public Customer Market Order will go straight into its first ATR Posting Period, displaying at the ATR Threshold of 1.93 – it will no longer first display at the Quote Exhaust reference price of 2.00, but the remainder of the behavior will remain the same due to applicability of ATR.

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40 See Phlx Options 3, Section 15(b)(1) which describes the Acceptable Trade Range.

Similar to ISE, GEMX and MRX, the Exchange proposes to amend Options 3, Section 6 to rename it "Collection and Dissemination of Quotes" and adopt a rule identical to ISE, GEMX and MRX Options 3, Section 6. The proposed new rule will specify, as is the case today, that each Market Maker shall communicate to the Exchange its bid and offers in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act and the Rules of the Exchange.[41] Further, as is the case today, the Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available to Public Customer Orders, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act.[42]

The Exchange proposes in Options 3, Section 6(c) to adopt rules around unusual market conditions. Today, Options 3, Section 6(c) notes that "when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official." The Exchange proposes to continue to provide that in proposed Options 3, Section 6(c)(1),

> An Exchange official designated by the Board shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market

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41 See proposed Phlx Options 3, Section 6(a).

42 See proposed Phlx Options 3, Section 6(b).

> on the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be "fast." When a market for an option is declared fast, the Exchange will provide notice that its quotations are not firm by appending an appropriate indicator to its quotations.

Further, the Exchange proposes to state in proposed Options 3, Section 6(c)(2) that if a market is declared fast, designated Exchange officials shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Options 3, Section 8; (ii) suspend the minimum size requirement of Options 2, Section 5(c)(1); or (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market. Today, Options 3, Section 9(b) provides certain manual trading halt authority deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

Proposed Options 3, Section 6(c)(3) provides that the Exchange will monitor the activity or conditions that caused a fast market to be declared, and a designated Exchange official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a designated Exchange official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations. Finally, the Exchange proposes to state in Options 3, Section 6(c)(4) that if the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then a designated Exchange official shall halt trading in a class, or classes so affected. Today, ISE, GEMX and MRX have the same authority in Options 3, Section 6(c)(3) to protect those markets in the event of unusual market conditions. The Exchange believes that it should be able to manage trading on Phlx in the same manner as ISE, GEMX and MRX in the event of unusual market conditions.

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

Phlx proposes to align its order types to those of ISE, GEMX and MRX Options 3, Section 7 and utilize the same numbering as those markets.[43]

Phlx proposes to relocate Options 3, Section 7(f)[44] to the first paragraph of Options 3, Section 7.

Market Orders

The Exchange proposes to amend the description of Market Orders. Today, Options 3, Section 7(b)(1) states, "A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Lead Market Makers, Market Makers and Off-Floor Broker-Dealers may not submit Market Orders." The Exchange proposes to amend the definition of Market Orders to introduce a cancel timer feature, which will allow member organizations to designate Market Orders that do not execute after a certain period of time to be cancelled back to the member organization. Specifically, the Exchange proposes to add that member organizations can designate their Market Orders not executed after a pre-established period of time, as established by the Exchange,[45] will be

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43 The Exchange also proposes to separately file rule changes related to Complex Orders, Qualified Contingent Cross Orders and auctions. The Exchange notes that those filing will also add order types to Options 3, Section 7 to mirror ISE, GEMX and MRX Options 3, Section 7 order types.

44 Current Phlx Options 3, Section 7(f) states, Orders may not be unbundled, nor may a firm solicit a customer to unbundle an order for this purpose.

45 The Exchange will initially set the pre-established period of time at 4 seconds, identical to BX. This specification will be set out in the ISE System settings document on a publicly available website. The Exchange would issue an Options Trader Alert notifying all member organizations if it determined to amend that timeframe.

cancelled back to the member organization once an options series has opened for trading. Nasdaq BX, Inc. currently has an identical timer feature for BX Market Orders.[46] Similar to BX, the proposed timer would be available once the intra-day trading session begins for an options series, as the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process.[47] In particular, the Exchange would cancel orders (if consistent with the member organization's instructions) if an options series has not opened before the conclusion of the opening delay timer.[48] As such, the Exchange is proposing that the pre-established period of time for the proposed timer feature would commence once the intra-day trading session begins for that options series. In other words, while the Opening Process is on-going, and the intra-day trading session has not commenced, the pre-established period of time for the proposed timer feature would not commence. Further, the Exchange proposes to note that Market Orders on the order book would be immediately cancelled if an options series is halted, provided the member organization designated the cancellation of Market Orders.[49] The proposed changes are intended to make clear that in the event there is a Market Order in a zero bid market while the Market Order was resting on the order book, the Member has an option to designate the cancellation of that Market Order pursuant to the proposed cancel timer feature. In this case, those Market Orders to sell, which were resting on the order book, would immediately cancel upon a trading halt instead of waiting until the end of the pre-established timer period. ISE, GEMX, MRX and BX also

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46 See BX Options 3, Section 7(a)(5).

47 See Phlx Options 3, Section 8 for the Opening Process.

48 See Phlx Options 3, Section 8(k).

49 Member organizations may make the designation to cancel their Market Orders through their FIX and port settings.

has identical language governing its Market Orders today.[50] Like ISE, GEMX, MRX and BX, the Exchange believes that the proposed intra-day timer feature will provide additional flexibility for member organizations that wish to cancel unexecuted Market Orders after a certain period of time.

As noted above in Options 2, Section 6, the Exchange would no longer prohibit Market Makers (and Lead Market Makers)[51] from entering Market Orders. In addition, the Exchange would no longer prohibit an Off-Floor Broker Dealer[52] from entering a Market Order for the same reasons as expressed above in Options 2, Section 6.[53] All Market Makers, including away market makers, are restricted to a total number of contracts executed during a quarter in options series to which it is not appointed of twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series as all options markets impose this restriction on market makers. The Exchange does not believe there is any reason to restrict Off-Floor Broker Dealers from entering Market Orders in options classes, rather, the Exchange proposes to permit all member organizations to be able to enter Market Orders as is the case on The Nasdaq Options Market LLC ("NOM"), BX, ISE, GEMX and MRX

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50 See ISE, GEMX and MRX Options 3, Section 7(a) and BX Options 3, Section 7(a)(5).

51 As explained above, Market Makers is a broad term that covers Lead Market Makers so both terms are not needed.

52 Phlx Options 1, Section 1(b)(33) provides, [t]he term "Off-Floor Broker-Dealer Order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

53 Current Phlx Options 3, Section 7(e) provides that An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f).

Limit Orders

The Exchange proposes to relocate "Limit Orders" from current Options 3, Section 7(b)(2) to proposed Options 3, Section 7(b) without change.[54] The Exchange proposes to define three types of Limit Orders similar to ISE, GEMX and MRX. First, the Exchange proposes to define a "Marketable Limit Order" as a Limit Order to buy (sell) at or above (below) the best offer (bid) on the Exchange. Next, the Exchange proposes to define a Fill-or-Kill Orders as a Limit Order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled. Finally, the Exchange proposes to relocate an Intermarket Sweep Order from current Options 3, Section 7(b)(3) to proposed Options 3, Section 7(b)(3) with some additions. The Exchange proposes to reorder some sentences to closely resemble ISE, GEMX and MRX Options 3, Section 7(b)(3). The Exchange proposes to add an additional sentence to make clear that ISOs must have a TIF designation of IOC. Additionally, the Exchange proposes to define the "regular order book" as the "single-leg order book."

All-or-None Orders

The Exchange proposes to relocate the All-or-None Orders from current Options 3, Section 7(b)(5) to proposed Options 3, Section 7(c) and amend it. Today, Phlx restricts All-or-None Orders to be entered only by Public Customers. At this time, the Exchange proposes to permit any member organization to submit an All-or-None Order similar to ISE, GEMX, and MRX Options 3, Section 7(c). The Exchange would not apply the Acceptable Trade Range protection in Options 3, Section 15(a) to All-Or-None

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54 Phlx Options 3, Section 7(b)(2) states, A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

Orders, similar to other orders. Finally, similar to ISE, GEMX and MRX, the Exchange proposes to modify All-or-None Orders so that they would execute against multiple, aggregated orders if the executions would occur simultaneously. Additionally, as is the case today, an All-or-None Order would not be submitted during the Opening Process similar to any other order that does not rest as the there is no order book during the Opening Process.

Stop Orders

The Exchange proposes to relocate the Stop Order description from Options 3, Section 7(b)(4)[55] to proposed Options 3, Section 7(d) and (e). Today, Phlx's Stop Order may be a Limit or Market Order. Also, the Stop Order may not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Phlx restricts Lead Market Makers, Maker Makers, and Off-Floor Broker-Dealers from entering Stop Market Orders. At this time, the Exchange proposes to amend its Stop Order to mirror the order type that is in use on ISE, GEMX and MRX at Options 3, Section 7(d) and (e). First, Phlx will permit all member organizations to utilize a Stop Order and Stop Limit Order and not restrict Maker Makers (including Lead Market Makers) as noted in the discussion of Options 2, Section 6 above. Further, the category

55 Phlx Options 3, Section 7(b)(4), states, A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Lead Market Makers and Maker Makers may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order. (A) A Stop-Limit Order to buy becomes a Limit Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A Stop-Limit Order to sell becomes a Limit Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price. (B) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price. (C) A Stop Order is a non-displayed, contingency order until elected.

of "Off-Floor Broker-Dealer Orders" is being eliminated as described below with this rule change. Second, the Exchange will not separately specify a Stop Market Limit Order, rather it will describe an elected Stop Order as a Market Order. The Exchange proposes to describe a Stop Order as an order that becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders may only be entered through FIX. The rule text that currently provides, "A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order" will be relocated to the ended of the sentence. The Exchange proposes to provide that a Stop Limit Order is an order that becomes a Limit Order when the stop price is elected. A Stop Limit Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Limit Order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. The Exchange is removing the rule text that states that a Stop Order is a non-displayed, contingency order until elected because the proposed rule text makes clear that the Stop Order does not become a Market or Limit Order until it is elected. Finally, similar to a Stop Order, a Stop Limit Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order.

Cancel or Replace Orders

The Exchange proposes to relocate the Cancel and Replace Order description from Options 3, Section 7(b)(7)[56] to proposed Options 3, Section 7(f). The Exchange proposes to modify the Cancel and Replace Order so that it mirrors the functionality on ISE, GEMX and MRX at Options 3, Section 7(f). The Exchange would state at the beginning that "Cancel and Replace Orders shall mean" to conform the text to the other changes to the order types. The Exchange would remove the phrase "with new terms and conditions" and instead note that the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, which the Exchange is adopting as noted further below, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. This new text specifically notes that amending the price or increasing the size will result in a loss of priority. Further the Exchange proposes to state that if the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g., Options 3, Section 15(a)(1) and Options 3, Section 15(a)(2)) the existing order shall be cancelled and not replaced. Today, the Exchange utilizes the simple order checks in Options 3, Section 15(a)(1), Order Price Protection, and Options 3, Section 15(b)(1), Acceptable Trade

56 Phlx Options 3, Section 7(b)(7) provides, A Cancel-Replacement Order is a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will result in a loss of priority.

Range, for each order entered into the System, including replacement orders. This additional language brings more clarity to the rule text.

Reserve Orders

The Exchange proposes to adopt a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g). As proposed, a Reserve Order would be a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order would be available for potential execution against incoming marketable orders. A non-marketable Reserve Order would rest on the order book. The displayed portion of a Reserve Order would be ranked at the specified limit price and the time of order entry. The displayed portion of a Reserve Order would trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders. Reserve Orders would be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the member organization. When the displayed portion of a Reserve Order is decremented, either in full or in part, it would be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion would include the previously displayed portion. Upon any refresh, the entire displayed portion would be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion would trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders. The initial non-displayed portion of a Reserve Order rests on the order book and would be ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion as described in proposed Options 3, Section 7(g)(5). The non-displayed portion of any Reserve Order would be available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order would trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders. The Exchange believes that the adoption of this new order type will allow all member organizations the ability to trade their orders with displayed and non-displayed portions similar to ISE, GEMX and MRX Options 3, Section 7(g).

Attributable Orders

The Exchange proposes to adopt Attributable Orders at Options 3, Section 7(h) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(h). An Attributable Order would be a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. The Exchange will issue an Options Regulatory Alert specifying the Systems for which the Attributable Order type shall be available. The Exchange believes that the availability of this order type will allow member organizations the ability to display their firm identification if they elect to do so.

Directed Orders[57]

The Exchange proposes to relocate the reference to Directed Orders currently in Options 3, Section 7(b)(11)[58] to Options 3, Section 7(l) without change. The Exchange proposes to reserve Options 3, Section 7(m).

Add Liquidity Orders

The Exchange proposes to adopt an Add Liquidity Order ("ALO") at Options 3, Section 7(n) that is identical to ISE, GEMX and MRX Options 3, Section 7(n). ALOs are limit orders that will only be executed as a "maker" on the Exchange. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Member organizations may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy

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57 The Exchange is skipping certain letters in this rule to account for other rule changes that will be filed that impact Options 3, Section 7(i), (j), (k), (t) and (v). Where the Exchange is reserving letters, it is to align to the lettering in ISE, GEMX and MRX Options 3, Section 7.

58 Phlx Options 3, Section 7(b)(11) provides, A Directed Order is as described in Options 2, Section 10.

orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d).[59] An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10 which governs priority and allocation. Add Liquidity Orders may only be submitted when an options series is open for trading. This order type would give market participants greater control over the circumstances in which their orders are executed.

Below are some examples of the Add Liquidity Order.

Add Liquidity Only Order Re-Price Example

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote $0.90 (10) × $1.00 (10)
- ABBO $0.85 × $1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at $1.00
  - Reprices on book to $0.95
  - Displays on $0.95 bid, which is National Best displayed bid with a quantity of 5
- Order to sell 10 arrives at $0.90
  - 5 execute with Firm A @ $0.95
  - 5 execute with Market Maker A @ $0.90

59 Phlx Options 3, Section 5(d) provides, An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

○ NBBO updates back to \$0.90 × \$1.00

Add Liquidity Only Reject Example

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) × \$1.00 (10)
- ABBO \$0.85 × \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00

  ○ Order is rejected back to sender because the sender configured the order for reject instead of re-price

The Exchange notes that it proposes to reserve Options 3, Section 7(o), (p), (q), (r), (s) and (t).

Opening Sweep

The Exchange proposes to relocate the Opening Sweep order type at Options 3, Section 7(b)(6)[60] to Options 3, Section 7(u) and amend it. The Exchange proposes to replace references to "Lead Market Makers" and "Market Makers" to simply "Market Makers" as all Lead Market Makers are also Market Makers.[61] Additionally, the Exchange proposes to note that with the technology migration, that Opening Sweeps would be subject to the new Market Wide Risk Protection proposed in Options 3, Section 15. The Exchange is proposing to add a Market Wide Risk Protection to its rules with

[60] Phlx Options 3, Section 7(b)(6) provides, An Opening Sweep is a one-sided order entered by a Lead Market Maker or Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8 and will be cancelled upon the open if not executed.

[61] See Phlx Options 1, Section 1(b)(28) which defines a Market Maker as a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

this proposal as described below. Finally, the Exchange proposes to add a precise citation to the Opening Process in the last sentence of Options 3, Section 7(u) by including "(b)(i)" after Options 3, Section 8.

The Exchange proposes to reserve Options 3, Section 7(x) and (y).

PIXL Order

The Exchange proposes to relocate the description of a PIXL Order from Options 3, Section 7(b)(9)[62] to Options 3, Section 7(y) without substantive change.[63] The Exchange proposes to populate Supplementary Material .01 to Options 3, Section 7 in a separate rule change.

Time in Force Provisions

The Exchange proposes to relocate the rule text concerning Time in Force from current Options 3, Section 7(c) to Supplementary Material .02 to Options 3, Section 7 without change. Phlx Options 3, Section 7(c) provides, "Time in Force or "TIF." The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:"

Day Order

The Exchange proposes to relocate Day Order from current Options 3, Section 7(c)(1)[64] to Supplementary Material .02(a) to Options 3, Section 7 and make minor amendments to the description. The Exchange proposes to amend the first sentence which states, "If not executed, an order entered with a TIF of "Day" expires at the end of

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62 Phlx Options 3, Section 7(b)(9) provides, A PIXL Order is as described in Options 3, Section 13.

63 The Exchange proposes to remove "A" before the words "PIXL Order."

64 Phlx Options 3, Section 7(c)(1) provides, If not executed, an order entered with a TIF of "Day" expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

the day on which it was entered." The Exchange proposes to instead provide, "An order to buy or sell entered with a TIF of "DAY," which, if not executed, expires at the end of the day on which it was entered." The Exchange is rewording the rule text of Day Order to mirror the text in ISE, GEMX and MRX Supplementary Material .02(a) to Options 3, Section 7. The Exchange notes that Phlx does not have the Precise or OTTO protocols today.

Good-Till-Cancelled

The Exchange proposes to relocate Good Till Cancelled from Options 3, Section 7(c)(4)[65] to Supplementary Material .02(b) to Options 3, Section 7 and amend the description. Currently, Supplementary Material .02(b) to Options 3, Section 7 provides that a Good Til Cancelled ("GTC") Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close. The Exchange proposes to instead provide that an order to buy or sell entered with a TIF of "GTC" remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The first sentence of the current text is simply worded differently. Also, all order types are available throughout the trading day unless specified otherwise. The Exchange proposes

65 Phlx Options 3, Section 7(c)(4) provides, A Good Til Cancelled ("GTC") Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

to add language concerning a corporate event, noting that GTC orders are canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. This is also true today. The Exchange is adding this rule text to clarify the current System behavior. The proposed GTC description is identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(b) to Options 3, Section 7. There is no System change as a result of the change to the description of the GTC order.

Good-Till-Date

The Exchange proposes to adopt a new TIF designation, Good-Till-Date or "GTD" at Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of "GTD," which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The Exchange believes this additional TIF will provide member organizations with additional opportunities when trading on Phlx.

Immediate-or-Cancel

The Exchange proposes to relocate Immediate-or-Cancel from Options 3, Section 7(c)(2)[66] to Supplementary Material .02(d) to Options 3, Section 7 and amend the

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66 Phlx Options 3, Section 7(c)(2) provides, An Immediate-or-Cancel ("IOC") Order entered with a TIF of "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. (A) Orders entered with a TIF of IOC are not eligible for routing. (B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a Market Maker or Lead Market Maker through SQF is not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively, or Size Limitation within Options 3, Section 16(e). (C) Orders entered into the Price Improvement XL ("PIXL") Mechanism and Qualified Contingent Cross

description. Supplementary Material .02(d) to Options 3, Section 7 currently states, "An Immediate-or-Cancel ("IOC") Order entered with a TIF of "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled." The Exchange proposes a non-substantive amendment to instead provide, "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." The Exchange proposes to relocate the rule text in Options 3, Section 7(c)(A) to Supplementary Material .02(d)(1) to Options 3, Section 7 without change. The Exchange proposes to relocate the rule text in Options 3, Section 7(c)(B) to Supplementary Material .02(d)(2) to Options 3, Section 7 and remove the reference to "Lead Market Maker" to simply "Market Makers" as all Lead Market Makers are also Market Makers.[67] The Exchange proposes to amend "SQF is not subject to" to "the SQF protocol will not be subject to". The Exchange proposes to add an "(A)" before Order Price Protection, and change "or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively, or Size Limitation within Options 3, Section 16(e)" to "and Size Limitation Protection as defined in Options 3, Section 15(a)(1), (a)(2), and (b)(2) respectively, for single leg orders." These modifications are non-substantive and simply bring more clarity to the rule text. The Exchange proposes to relocate the rule text in current Phlx Options 3, Section 7(c)(2)(C) in a separate rule change. These changes align with rule text in ISE, GEMX and MRX Supplementary Material .02(d) to Options 3, Section 7.

("QCC") Mechanism 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.

67 See Phlx Options 1, Section 1(b)(28) which defines a Market Maker as a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

Opening Only

The Exchange proposes to relocate Opening Only from Options 3, Section 7(c)(3)[68] to proposed Supplementary Material .02(e) of Options 3, Section 7. The Exchange is proposing to add Phlx's new Market Wide Risk Protection to the list of risk protections that would apply to Opening Only. The Exchange proposes a new Market Wide Risk Protection as explained below in this proposal. Also, the Exchange proposes to capitalize "orders" in the last sentence.

Order Entry Protocols

The Exchange proposes to amend the rule text currently in Supplementary Material .03(a)(i) of Options 3, Section 7. With respect to the FIX protocol, within proposed Supplementary Material .03(A) of Options 3, Section 7,[69] the Exchange proposes to add "post trade allocation messages" to the list of features that will be included in FIX. A post trade allocation message allows market participants to specify how an order should be subdivided among one or more accounts.[70] Today, ISE, GEMX and MRX provide post trade allocation messages through FIX.[71] The Exchange does not

[68] Phlx Options 3, Section 7(c)(3) provides, An Opening Only ("OPG") order is entered with a TIF of "OPG". This order can only be executed in the Opening Process pursuant to Options 3, Section 8. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route.

[69] Phlx Supplementary Material .03(A) of Options 3, Section 7 provides, "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 and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications."

[70] For example, a member may specify the account(s) and their respective order quantities which make up the order.

[71] See ISE, GEMX and MRX Supplementary Material .03(a)(i) of Options 3, Section 7.

propose to amend the SQF protocol within Supplementary Material .03(B) of Options 3, Section 7[72] or the FBMS protocol within Supplementary Material .03(C) of Options 3, Section 7.[73]

Routing

The Exchange proposes to relocate the rule text at Options 3, Section 7(d)[74] to Supplementary Material .04 of Options 3, Section 7 without change.

Options 3, Section 8

The Exchange proposes to amend Options 3, Section 8, Options Opening Process, at Options 3, Section 8(b) to note the eligible interest that will be included in the Opening Process. The Exchange currently provides at Options 3, Section 8(b) that, "Eligible

72 Phlx Supplementary Material .03(A) of Options 3, Section 7 provides, "Specialized Quote Feed" or "SQF" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from 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) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2) and (b)(2), respectively.

73 Phlx Supplementary Material .03(C) of Options 3, Section 7 provides, Options Floor Based Management System or ("FBMS") is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible pursuant to Options 8, Section 22(a), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Options 8, Sections 28(e) and 29. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.

74 Phlx Options 3, Section 7(d) provides, Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX only.

interest during the Opening Process includes Valid Width Quotes, Opening Sweeps, and orders. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. Non-SQT Market Makers may submit orders." The Exchange proposes to note that "Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps, and orders, *including Opening Only Orders, but excluding orders with a Time-In-Force of "Immediate or Cancel" and Add Liquidity Orders*. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. *The displayed and non-displayed portions of the Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process.* Non-SQT Market Makers may submit orders."[75] The Exchange would exclude Add Liquidity Orders and consider Reserve Orders (displayed and non-displayed portions) for execution in the Opening Process as well as when considering the Opening Price. The Exchange proposes to amend the rule text to note how those order types are accepted by the System for processing during the Opening Process. The proposed eligibility of these orders mirror ISE, GEMX and MRX Options 3, Section 8(b).

Also, similar to ISE, GEMX and MRX Options 3, Section 8(g), the Exchange proposes to account for the addition of Reserve Orders with respect to the Potential Opening Price[76] in Phlx Options 3, Section 8(h). The Exchange notes that to calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps *and displayed and non-displayed portions*

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75 Today, Opening Only Orders are eligible for the Opening Process but not Immediate or Cancel Orders.

76 The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

of Reserve Orders) for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). The addition of this rule text will make clear the manner in which the System will handle a Reserve Order during the Opening Process.

The Exchange proposes to amend Options 3, Section 8(h)(A), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price. Today, Phlx Options 3, Section 8(h)(A) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. The Exchange proposes to no longer round in the direction of the previous trading day's closing price, rather it would round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation with this technology migration. The proposed changes are intended to simplify and bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. This proposed change will mirror the functionality on ISE, GEMX and MRX.[77]

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77 See ISE, GEMX and MRX Options 3, Section 8(g).

The Exchange further proposes to amend Phlx Options 3, Section 8(j)(7), which currently describes the determination of Opening Quote Range ("OQR") boundaries in certain scenarios.[78] Specifically, the Exchange proposes to amend the last sentence of Options 3, Section 8(j)(7) which currently states, "The System will route routable Public Customer and Professional interest pursuant to Options 3, Section 10(a)(1)(A)." The Exchange proposes to remove the current limitation that only allows routable Public Customer[79] and Professional[80] interest to route during the Opening Process. Instead, all routable market participant interest will be allowed to route to align the Exchange's opening functionality with ISE, GEMX and MRX Options 3, Section 8, which does not limit orders that may route in the Opening Process. Specifically, the Exchange proposes to remove the reference to Public Customer and Professional to allow all routable interest to route in the Opening Process. The Exchange proposes to update the cross-cite to Phlx Options 3, Section 10(a)(1)(A), that currently points to the Public Customer priority overlay. Instead, the Exchange would amend the citation to point to the more general priority rule in Phlx Options 3, Section 10(a).

Similar to other changes noted herein, the Exchange proposes to amend Phlx Options 3, Section 8(k)(C)(6) to note how Reserve Orders will be handled in the Opening Process for purposes of execution. The Exchange proposes to state, "The System will

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78 OQR is an additional type of boundary used in the Opening Process, and is intended to limit the opening price to a reasonable, middle ground price, thus reducing the potential for erroneous trades during the Opening Process.

79 The term "Public Customer" means a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Options 1, Section (b)(45). See Option 1, Section 1(b)(46).

80 The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). Member organizations must indicate whether orders are for Professionals. See Option 1, Section 1(b)(45).

execute orders at the Opening Process that have contingencies *(such as without limitation, Reserve Orders)* and non-routable orders, such as a “Do Not Route” or “DNR” Orders, to the extent possible. This rule text will add transparency to Phlx’s rule text, and mirror rule text in ISE, GEMX and MRX Options 3, Section 8(j)(6). Additionally, the Exchange proposes an amendment to the last sentence of Phlx Options 3, Section 8(k)(C)(6) which currently states, “The System will only route non-contingency Public Customer and Professional orders.” In line with proposed amendments to permit the System to route all market participant interest, thereby removing the limitation that only allows routable Public Customer and Professional interest to route, and in line with the addition of rule text related to the handling of Reserve Orders, the Exchange proposes to instead provide, “The System will only route non-contingency orders, except Reserve Orders may route up to their full volume.” With this proposal, Phlx would have the following contingency orders that will not route: a Stop Order, an All-or-None Order and a Fill-or-Kill Order.

The Exchange proposes to amend current Phlx Options 3, Section 8(k)(D) to mirror rule text in ISE, GEMX and MRX Options 3, Section 8(j)(6)(A) which states, “The System will cancel any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening.” Today, the Phlx System will cancel any order or quote priced through the Opening Price. Also, today, all other interest will be eligible for trading after the Opening Process and will remain on the order book. The Exchange believes that this rule text will bring greater transparency to Phlx’s Opening Process.

Finally, the Exchange proposes to amend rule text in the Opening Process Cancel Timer at Phlx Options 3, Section 8(l). With the retention of the “Good-Till-Cancel Order” and adoption of the “Good-Till-Date Order,” the Exchange proposes to amend the order types in the last sentence of Options 3, Section 8(l) for consistency.

Options 3, Section 9

The Exchange proposes to amend Phlx Options 3, Section 9, Trading Halts. Specifically, the Exchange proposes to amend Options 3, Section 9(d)(3) to amend the manner in which a Stop Order will be treated during a trading halt. The Exchange proposes to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3). Today, the rule text notes that “[a]fter the opening, the Exchange shall elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify member organizations of the reason for such rejection.” The Exchange proposes to amend the rule text to instead provide, “After the Opening Process, if a Stop Order is elected, as defined in Options 3, Section 7(d) because they become Market Orders, the System shall cancel them back and notify market participants of the reason for such cancellation.” Stop Orders would become elected as provided for in proposed Options 3, Section 7(d).[81] The Exchange currently cites Phlx Options 8, Section 32 erroneously, as those rules refer to Stop Order types on the trading floor. The Exchange proposes to instead cite proposed new Options 3, Section 7(d) which describes the electronic Stop Order type. The Exchange proposes to note that the System cancels orders. Also, the Exchange proposes to change the word

81 As proposed in Options 3, Section 7(d) a Stop Order becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

rejection to cancellation because the order would be cancelled not rejected. The Exchange also proposes to amend Phlx Options 3, Section 9(f) which currently states, "During a halt, the Exchange will maintain existing orders on the book (but not existing quotes), except as noted in Options 5, Section 4, accept orders and quotes, and process cancels. During a halt, existing quotes are cancelled and auction orders and auction responses, as well as Crossing Orders, are rejected." The Exchange notes that this exception in Phlx Options 3, Section 9(f) to potential exceptions to this rule within Options 5, Section 4 is not necessary as the Exchange follows the trading halt processes in Options 3, Section 9. Options 5, Section 4 does not change the manner in which Options 3, Section 9 operates.

Options 3, Section 10

The Exchange proposes to amend Phlx Options 3, Section 10, Electronic Execution Priority and Processing in the System. Today, generally, Phlx's System rounds down. With this technology migration, the Exchange proposes to amend Phlx's rounding methodology to round up to the nearest integer. Today, ISE, GEMX and MRX Options 3, Section 10(c) provide for a Size Pro-Rata allocation with the same rounding methodology as proposed for Phlx. The Exchange is opting to round up and not down, uniformly, and disclose that rounding methodology directly within Options 3, Section 10, so that all member organizations are aware of the rounding methodology that would be utilized by the System. In addition, if the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because the System is rounding up, the provisions which describe allocations for remainders of less than one contract are being deleted because they cannot mathematically occur. The Exchange believes that rounding up uniformly is consistent with the Act because it provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. By way of example,

Broker/Dealer Order to Buy 20 @ 1.00

Firm Order to Buy 10 @ 1.00

Customer Order to Sell 7 @ 1.00

Today, this order would allocate as follows: 4 contracts to the Broker/Dealer Order (BD receives 20/30 of the incoming 7 = 4.667, rounds down to 4 contracts)

Today, this order allocates 2 contracts to the Firm Order (Firm receives 10/30 of the incoming 7 = 2.33, rounds down to 2 contracts)

Today, this order allocates 1 contract (the odd lot) to the Broker/Dealer Order

With this proposal, allocation will round up instead of down, meaning the Broker/Dealer order would instead be allocated 5 contracts and the Firm order would receive the remaining 2 contracts.

To that end, the Exchange proposes to amend Options 3, Section 10(a) to instead provide that "If the result is not a whole number, it will be rounded up to the nearest whole number. Size Pro-Rata Priority shall mean that resting orders and quotes in the order book are prioritized according to price. If there are two or more resting orders or quotes at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price. Pursuant to Size Pro-Rata, if there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining. The Exchange is proposing to allocate similar to ISE, GEMX and MRX Options 3, Section 10(c). The Size Pro-Rata allocation divides the remainder proportionally among the non-displayed interest. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders or quotes. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest on the single-leg order book has been executed. The Odd Lot Allocation within Phlx Options 3, Section 10(a)(1)(F) is also being removed because the Exchange would no longer utilize the random assignment discussed in that paragraph, rather the Exchange would simply round up any allocation which does not result in a whole number, and thus would have no Odd Lot contracts remaining to be allocated.

The Exchange proposes to amend Phlx Options 3, Section 10(a)(1)(B) to change a reference to “DROT” to “Directed Market Maker” for consistency.

The Exchange proposes to amend Phlx Options 3, Section 10(a)(1)(C) to provide that “After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Options 2, Section 10, provided the Directed Market Maker’s quote is at the better of the internal PBBO or the NBBO, the Directed Market Maker will be afforded a participation entitlement. This participation entitlement will be considered after the Opening Process." Today, a Directed Market Maker's quote or market maker order must be at the better of the internal PBBO or NBBO. The Exchange believes that similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(C), that Market Maker orders should not be considered when offering Directed Market Maker priority enhancements. Phlx Options 2, Section 10 provides that when the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Lead Market Maker, SQT or RSQT is *quoting* at the better of the internal PBBO or the NBBO, the Directed Order shall be automatically executed and allocated in accordance with Options 3, Section 10(a)(1)(C). The Exchange proposes to only offer the Directed Market Maker enhanced allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not its order. Consistent with this change, the Exchange proposes to remove "or order(s)" after quote throughout Options 3, Section 10(a)(1)(C). Consistent with its proposal to round up, the Exchange proposes to remove the last sentence of Options 3, Section 10(a)(1)(C) that provides, "If rounding would result in an allocation of less than one contract, the Directed Market Maker shall receive one contract."

The Exchange proposes to amend the Phlx's Entitlement for Orders of 5 contracts or fewer at Options 3, Section 10(a)(1)(D) to align with ISE, GEMX and MRX Options 3, Section 10(a)(1)(D). The Exchange proposes to amend the last sentence to provide, "On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over 40%." Today, Phlx's percentage for the reduction is 25%. The Exchange believes that utilizing the higher percentage continues to restrict Lead Market Makers with respect to the percentage of the volume executed on Phlx that is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers. The Exchange will continue to evaluate the percentage on a quarterly basis. The Exchange monitors ISE, GEMX and MRX Lead Markets' orders for 5 contracts or fewer based on this percentage today and this has not raised any concerns. Finally, this proposal will align this percentage to 40% identical to ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) so that Market Makers have the same compliance across the Nasdaq affiliated exchanges.[82] Phlx notes that currently Lead Market Makers are not approaching the 25% threshold noted in Options 3, Section 10(a)(1)(D)(ii) related to the quarterly review of 5 contracts or fewer by the Exchange, which percentage is based on total volume executed. With this proposal, Phlx will monitor the frequency in which Lead Market Makers receive orders for 5 contracts or fewer. Specifically, the Exchange will review the proposed provision quarterly and will maintain the orders for 5 contracts or fewer at a level that will not allow these small size orders executed by Lead Market Makers to account for more than 40% of the volume executed on the Exchange. The Exchange does not believe the proposal raises any new or novel issues as other options exchanges also offer the same allocation for orders for 5 contracts or fewer.[83] The Exchange believes that providing this benefit offers Lead Market Makers an incentive for vigorous quoting since a Lead Market Maker must be quoting at the NBBO in order to receive the allocation.

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[82] BX also utilizes 40%. See Options 3, Sections 10(a)(1)(C)(1)(c) and 10(a)(2)(iii).

[83] See ISE, GEMX and MRX Options 3, Section 10(a)(1)(D).

Incentivizing Lead Market Makers to provide liquidity on Phlx, in turn, provides greater opportunity for executions, tighter spreads, and better pricing for all member organizations. While the Commission has, in the past, been concerned about locking up larger portions of order flow from intra-market price competition, the Exchange believes that the enhancement would remain adequately balanced by the increased 40% threshold that limits the volume of orders of five contracts or fewer that are executed by Lead Market Makers to account for no more than 40% of the volume executed on the Exchange. The proposed increased limitation of 40% continues to strike a reasonable balance between encouraging vigorous price competition by Lead Market Makers and rewarding those Lead Market Makers for their unique duties. Lead Market Maker are also subject to the heightened quoting requirements specified in Options 2, Section 5(c)(2)(B). As noted above, consistent with proposed rounding, the Exchange proposes to remove the Phlx Odd Lot Allocation in Phlx Options 3, Section 10(a)(1)(F)[84] because Phlx will round up which would not result in remaining contracts to be allocated after rounding. There is no net benefit or negative to electing to round up versus utilizing any other method of rounding (down, banker's rounding, etc.) provided the rounding is handling uniformly and applied in the same manner to each trade executed by the System. The Exchange will uniformly apply its proposed rounding methodology, rounding up, to all transactions executed on Phlx. The Exchange also proposes to remove the reference to this paragraph at the end of Phlx Options 3, Section 10(a)(1)(D)(ii).

[84] Phlx Options 3, Section 10(a)(1)(F) provides, [i]f there are contracts remaining after Market Maker Priority is applied, such contracts shall be allocated by randomly assigning all Market Makers (including the Lead Market Maker or Directed Market Maker) an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the Market Maker, is at the best price at which the order, quote or sweep is being traded.

Similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(E), the Exchange proposes to account for Reserve Orders in proposed Phlx Options 3, Section 7(g)(3). The Exchange proposes to state that, "If there are contracts remaining after all Market Maker interest has been fully executed, notwithstanding Options 3, Section 7(g)(3), such contracts shall be executed based on the Size Pro-Rata execution algorithm as described in Options 3, Section 10(a)." The Exchange proposes to cite to proposed Phlx Options 3, Section 7(g)(3) which provides that the displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders and this subparagraph (F) for non-Public Customer Orders. The displayed portion of a Reserve Order will be allocated the same as other order types. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders or quotes. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest on the single-leg order book has been executed. The proposed rule text related to allocation of a Reserve Order is identical to ISE, GEMX and MRX at Options 3, Section 10(g). The Exchange also proposes to add a citation to Options 3, Section 10(a) in this paragraph for clarity.

Finally, the Exchange proposes to amend Phlx Options 3, Section 10(a)(2) to capitalize "market maker" and remove the Market Maker order at the end of this paragraph because, as proposed above, the Exchange proposes to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order.

<u>Options 3, Section 15</u>

The Exchange proposes to amend Options 3, Section 15, Simple Order Risk Protections.

Order Price Protection

The Exchange proposes to amend its Order Price Protection ("OPP," also known as the fat finger check) in Phlx Options 3, Section 15(a)(1) to align certain features with the OPP functionality currently offered by its affiliate, NOM and BX. The Exchange's proposal will introduce an alternative method to determine parameters for this risk protection. The Exchange notes that OPP is intended to prevent erroneous executions of orders on Phlx. This proposal seeks to further this objective by introducing a fixed dollar threshold that, in combination with the existing percentage threshold, will provide a modified approach to order rejection based on the price of the order.

The Exchange's current OPP feature prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but currently does not apply to Stop-Limit Orders, Intermarket Sweep Orders or Complex Orders. Today, OPP is operational each trading day after the opening until the close of trading, except during trading halts. OPP assists member organizations in controlling risk by checking each order, before it is accepted into the System, against certain parameters. Today, as set forth in Phlx Options 3, Section 15(a)(1)(B), OPP rejects incoming orders that exceed certain parameters according to the following algorithm:

> (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.

> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

With this technology migration, the Exchange proposes to expand the algorithm for OPP to introduce a fixed dollar threshold as an alternative to the percentage specified within the current rule. To effect this change, the Exchange proposes to amend Phlx Options 3, Section 15(a)(1)(B) to provide that OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

> (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
>
> > (A) 50% through such contra-side Reference BBO; or
> >
> > (B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.
>
> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
>
> > (A) 100% through such contra-side Reference BBO; or
> >
> > (B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.

The proposed alternative would permit for a range of prices to be executed where the incoming order is up to $1.00 from the Reference BBO. The parameters are identical to NOM and BX Options 3, Section 15(a)(1)(B). Similar to NOM and BX, the Exchange believes that utilizing the greater of a fixed dollar amount or percentage would expand the applicability of OPP while still providing a reasonable limit to the range where orders will be accepted. By implementing a functionality that applies the greater of a fixed dollar amount not to exceed $1.00 or a percentage, the Exchange would ensure that this protection would be able to accommodate all orders based on a determination of how far from the Reference BBO the order is priced.

The Exchange notes that certain securities in lower price ranges would not benefit from the application of a percentage as would securities with higher prices. For instance, the application of a 50% threshold to a $50 security would provide a rejection if a limit order was priced $75 or greater compared to a 100% threshold for a $0.02 security which would be rejected if a limit order was priced $0.04 or greater. As such, certain orders could be rejected under the current framework because the percentage threshold is applied to the contra-side of an incoming order, including in cases where the order is not erroneously priced. Below are additional examples to illustrate the application of the current and proposed rule:

<u>Example: An option priced less than $1.00</u>

For a penny MPV option with a BBO on Phlx of $0.01 x $0.02, consider that the configurable dollar amount is set to $0.05.

Current Rule: Reject buy orders of more than $0.04 bid if incoming order was less than $1.00, and it was more than 100% through the contra-side of the Reference BBO.

Proposed Rule: A buy order priced up to $0.07 ($0.02 offer + $0.05 configuration) would not be rejected because a configurable dollar amount from $0.00 to $0.05 would allow the order to be entered into the System for execution.

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

<u>Example: An option priced greater than $1.00</u>

For a penny MPV option with a BBO on Phlx of $1.01 x $1.02, consider that the configurable dollar amount is set to $0.60

Current Rule: Reject buy orders 50% through $1.02 - orders priced greater than $1.53 ($1.02 + $0.51).

Proposed Rule: A buy order priced up to $1.62 would not be rejected (this would be greater than 50% through 1.02).

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

As the above examples illustrate, the Exchange believes that securities in the lower price range could benefit by the proposed alternative method because the fixed amount provides for additional executions in certain situations where a percentage would reject an order that was intentional and not erroneous. This approach has been successful for NOM and BX in limiting erroneous executions while permitting intentional executions at reasonable prices, and the Exchange therefore proposes to adopt this approach for its options market as well. Similar to NOM and BX, the Exchange will post the configurable amount on its website and announce any changes to the amount in an Options Trader Alert.

The Exchange also proposes to add language similar to NOM and BX, which would provide the Exchange with discretion to temporarily deactivate OPP from time to time on an intra-day basis if it determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like NOM and BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO). Member organizations would be notified of intra-day OPP deactivation and any subsequent reactivation by the Exchange through the issuance of System status messages.

Specifically, the Exchange proposes to add in Phlx Options 3, Section 15(a)(1)(A) that OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

Lastly, the Exchange proposes to amend Options 3, Section 15(a)(1) to remove the current exclusion of Intermarket Sweep Orders ("ISOs") and Complex Orders from the OPP rule. With the proposed amendment, OPP will apply to ISOs. With respect to ISOs, the intent of an ISO is to sweep as many prices as possible at the top of the book, so market participants need to cast as wide a net as possible to get those prices and fill the ISO. With the current OPP functionality, lower priced ISOs are more likely to get rejected for the reasons discussed above, and the Exchange determined at the time to exclude ISOs when adopting OPP. The proposal to add a fixed dollar threshold as an alternative OPP parameter, however, would provide more flexibility for more lower-priced options (including lower-priced ISOs) to get executed, and the Exchange therefore believes it is no longer necessary to exclude ISOs from OPP going forward. The Exchange further believes extending the protection to ISOs will promote the goal of limiting erroneous executions on the Exchange while permitting intentional executions at reasonable prices, and in general, extend more protections to ISOs. The Exchange is removing Complex Orders from the list of order types noted in Options 3, Section 15(a) because Section 15 applies to single-leg orders. The Exchange notes Complex Order risk protections in Options 3, Section 16. Finally, the Exchange proposes to add "until elected" after Stop-Limit Orders. Once the Stop-Limit Order is elected, the Exchange checks the Limit Order against the OPP bounds and will cancel the order back to the entering member if the order falls outside of the OPP bounds at the time of its election.

Market Wide Risk Protection

The Exchange proposes to introduce new order entry and execution rate checks identical to those on BX at Options 3, Section 15(a)(3) for Market Wide Risk Protection. These new risk protections are designed to aid member organizations in their order risk management by supplementing current price reasonability checks with activity based order protections.[85] The Exchange proposes to detail these risk protections in proposed Options 3, Section 15(a)(3), entitled "Market Wide Risk Protection" or "MWRP". As proposed, the System will maintain one or more counting programs for each member organization that count orders entered and contracts traded on Phlx. Member organizations may use multiple counting programs to separate risk protections for different groups established within the member organization. The counting programs will maintain separate counts, over rolling time periods specified by the member organization for each count, of: (1) the total number of orders entered in the order book; and (2) the total number of contracts traded.[86]

All member organizations must provide parameters for the order entry and execution rate protections as described in (1) and (2) above. While the MWRP is mandatory for all member organizations, the Exchange is not proposing to establish minimum or maximum values for the order entry and execution parameters described above. The Exchange believes that this approach will give member organizations the flexibility needed to appropriately tailor the MWRP to their respective risk management

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85 The Exchange currently provides members organizations with price protections for orders such as the OPP and the Market Order Spread Protection, which prevent limit orders and market orders from being executed at far away and potentially erroneous prices.

86 Phlx will also provide Market Wide Risk Protections for Complex Orders in a separate rule change.

needs. In this regard, the Exchange notes that each member organization is in the best position to determine risk settings appropriate for their firm based on the member organization's trading activity and business needs. In the interest of maintaining a fair and orderly market, however, the Exchange will also establish default values for each of these parameters that apply to member organizations that do not submit their own parameters for the MWRP, and will announce these default values in an Options Trader Alert to be distributed to member organizations. The Exchange notes that this approach is consistent with BX's current functionality and would provide Phlx member organizations with the flexibility to establish their own MWRP order entry and execution rate parameters. The Exchanges also notes that similar to BX, Phlx member organizations will have the discretion to establish the applicable time period for each of the counts maintained under the proposed MWRP, provided that the selected time period must be within the minimum and maximum duration of the applicable time period established by the Exchange and announced via an Options Trader Alert.[87]

Pursuant to proposed Phlx Options 3, Section 15(a)(3)(A) – (C), if, during the applicable time period, the member organization exceeds the thresholds that it has set for any of the order entry or execution counts described above on Phlx, the System will automatically reject all subsequent incoming orders entered by the member organization. Member organizations may also choose to have the System automatically cancel all of their existing orders on Phlx when the MWRP is triggered. The MWRP will remain engaged until the member organization manually notifies the Exchange to enable the acceptance of new orders. For member organizations that still have open orders on the

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[87] See proposed Options 3, Section 15(a)(3). See also BX Options 3, Section 15(a)(3).

order book that have not been cancelled pursuant to proposed subparagraph (B), the System will continue to allow those member organizations to interact with existing orders entered before the protection was triggered, including sending cancel order messages and receiving trade executions for those orders. The action taken in proposed subparagraphs (A) – (C) is substantially similar to BX Options 3, Section 15(a)(3)(C), except that BX does not have complex order functionality.

The Exchange believes that the proposed MWRP will assist member organizations in better managing their risk when trading on Phlx. In particular, the proposed rule change provides functionality that allows member organizations to set risk management thresholds for the number of orders or contracts executed on the Exchange during a specified period. As discussed above, this is similar to how BX has implemented the MWRP, and the Exchange believes this functionality will likewise be beneficial for Phlx member organizations.

The examples below illustrate how the MWRP would work both for order entry and order execution protections:

<u>Example: Order Entry Rate Protection:</u>

Broker Dealer 1 (“BD1”) designates an allowable order rate of 499 orders / 1 second.

@0 milliseconds, BD1 enters 200 orders. (Order total: 200 orders)

@450 milliseconds, BD1 enters 250 orders. (Order total: 450 orders)

@950 milliseconds, BD1 enters 50 orders. (Order total: 500 orders)

Market Wide Risk Protection is triggered on Phlx due to exceeding 499 orders in 1 second. All subsequent orders are rejected, and if BD1 has opted in to this functionality, all existing orders are cancelled. BD1 must contact the Exchange to resume trading.

Example: Order Execution Rate Protection

BD1 designates an allowable execution rate of 15,000 contracts / 2 seconds.

@0 milliseconds, BD1 receives executions for 5,000 contracts.

(Execution total: 5,000 contracts)

@600 milliseconds, BD1 receives executions for 10,000 contracts.

(Execution total: 15,000 contracts)

@1550 milliseconds, BD1 receives executions for 2,000 contracts.

(Execution total: 17,000 contracts)

Market Wide Risk Protection is triggered on Phlx due to exceeding 15,000 contracts in 2 seconds. All subsequent orders are rejected, and if BD1 has opted in to this functionality, all existing orders are cancelled. BD1 must contact the Exchange to resume trading.

Acceptable Trade Range

The Exchange proposes to amend the Acceptable Trade Range or “ATR” at Phlx Options 3, Section 15(b)(1) to note that ATR will not be available for All-or-None Orders. The Exchange notes that it would be difficult, from a technical standpoint, to apply this feature to those orders because their particular contingency makes it difficult to automate their handling.[88] In 2023, the Exchange filed a rule change[89] to amend Phlx’s All-or-None Orders so that they may only be submitted as an Immediate-or-Cancel Order. As a result of the 2023 rule change, All-or-None Orders no longer rest on the order book and instead execute in their entirety or are cancelled if it cannot execute.[90] The Exchange should have noted at that time that because of that change that ATR would

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88 See Securities Exchange Act Release No. 79677 (December 22, 2016), 81 FR 96114 (December 29, 2016) (SR-ISEGemini-2016-17) (Notice of Filing of Proposed Rule Change To Amend Various Rules in Connection With a System Migration to Nasdaq INET Technology).

89 See Securities Exchange Act Release No. 98142 (August 16, 2023), 88 FR 57140 (August 22, 2023) (SR-Phlx-2023-34) (Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Phlx’s All-or-None Order) (“SR-Phlx-2023-34”).

90 Id.

not be available for All-or-None Orders. The Exchange is proposing this rule text to note similar to, ISE, GEMX and MRX Options 3, Section 15(a)(2)(A)(i) that the Acceptable Trade Range is not available for All-or-None Orders.[91]

Additionally, the Exchange proposes to account for quotes, in addition to orders in Options 3, Section 15(b)(1)(B) in the sentence that provides, "If the order/quote remains unexecuted after the Posting Period, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned)." In addition to orders, quotes are also subject to a request to be returned if posted at the outer limit of the Acceptable Trade Range. The addition of quotes clarifies the current System functionality.

The Exchange also proposes to remove the following phrase in Options 3, Section 15(b)(1)(B), "…unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Options 3, Section 6(a)(ii)(B)(3) will ensue, triggering a new Reference Price." As noted above in this proposal, the Exchange would no longer have the Quote Exhaust functionality. Therefore, the Exchange notes that a Quote Exhaust would not impact the ATR functionality as a result of its removal.

Anti-Internalization

The Exchange proposes to enhance the anti-internalization ("AIQ") functionality at Phlx Options 3, Section 15(c)(1), provided to Market Makers on the Exchange by

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91 Similar to Phlx, ISE, GEMX and MRX All-or-None Orders are immediate or cancel. See ISE, GEMX and MRX Options 3, Section 7(c).

giving member organizations the flexibility to choose to have this protection apply at the market participant identifier (i.e., existing functionality), at the Exchange account level, or at the firm level. The Exchange believes that this enhancement will provide helpful flexibility for Market Makers that wish to prevent trading against all quotes and orders entered by their firm, or Exchange account, instead of just quotes and orders that are entered under the same market participant identifier. Similar functionality is currently available on ISE, MRX and GEMX at Options 3, Section 15(a)(3)(A).

Currently, as provided in Phlx Options 3, Section 15(c)(1), the Exchange provides mandatory AIQ functionality that prevents Market Makers from trading against their own quotes and orders. In particular, quotes and orders entered by Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier. In such a case, the System cancels the oldest of the quotes or orders back to the entering party prior to execution. This functionality does not apply in any auction.

Today, this protection prevents Market Makers from trading against their own quotes and orders at the market participant identifier level. The proposed enhancement to this functionality would allow member organizations to choose to have this protection applied at the Market Maker identifier level (existing functionality), at the Exchange account level, or at the firm level. If member organizations choose to have this protection applied at the Exchange account level, AIQ would prevent quotes and orders from different market participant identifiers associated with the same Exchange account from trading against one another. Similarly, if the member organizations choose to have this protection applied at the member organization firm level, AIQ would prohibit quotes and orders from different market participant identifiers within the member organization firm from trading against one another. The Exchange believes that the proposed AIQ enhancement will provide member organizations with more tailored functionality that allows them to manage their trading as appropriate based on the member organizations' business needs. While the Exchange believes that some firms may want to restrict AIQ to trading against interest from the same Market Maker identifier (i.e., as implemented today), other firms may find it helpful to be able to configure AIQ to apply at the Exchange account level or at the firm level so that they are protected regardless of which Market Maker identifier the order or quote originated from. ISE, GEMX and MRX Options 3, Section 15(a)(3)(A) offer identical flexibility.

The examples below illustrate how AIQ would operate based on the market participant identifier level protection, the Exchange account level, or for member organizations that choose to apply AIQ at the firm level:

<u>Example: Market Participant Identifier Level</u>

ABC (market participant identifiers 123A & 555B) with AIQ configured at the market participant identifier level

123A Quote: $1.00 (5) x $1.10 (20)

555B Buy Order entered for 10 contracts at $1.10

555B Buy Order executes 10 contracts against 123A Quote. 123A and 555B are not prevented by the System from trading against one another because member organization ABC has configured AIQ to apply at the market participant identifier level. This is the same as existing functionality.

<u>Example: Exchange Account Level</u>

ABC (Account 999 with market participant identifiers 123A and 555B, and Account 888 with market participant identifier 789A) with AIQ configured at the Exchange account level.

123A Quote: $1.00 (5) x $1.10 (20)

789A Quote: $1.05(10) x $1.10 (20)

555B Buy Order entered for 30 contracts at $1.10

555B Buy Order executes against 789A Quote but 555B Buy Order does not execute against 123A Quote. AIQ purges the 123A Quote and the remaining contracts of the 555B Buy Order rests on the book at $1.10. 123A and 555B are not permitted trade against one another because member organization ABC has configured AIQ to apply at the Exchange account level. This is new functionality as the member organization has opted to have AIQ operate at the Exchange account level.

Example: Firm Level

ABC (Account 999 with market participant identifiers 123A and 555B, and Account 888 with market participant identifier 789A) with AIQ configured at the firm level.

123A Quote: $1.00 (5) x $1.10 (20)

789A Quote: $1.05(10) x $1.10 (20)

555B Buy Order entered for 30 contracts at $1.10

AIQ purges the 123A Quote and the 789A Quote and the 555B Buy Order rests on the book at $1.10. This is new functionality as the member organization has opted to have AIQ operate at the member organization firm level.

Quotation Adjustments

The Exchange proposes to amend Phlx Options 3, Section 15(c)(2), which sets forth the Exchange's "Rapid Fire" risk protection for quotes, to expand existing functionality by introducing optional Delta and Vega (as defined below) curtailment measures in addition to the current percentage-based and volume-based curtailments. The new curtailment measures will be functionally similar to the Delta and Vega thresholds currently offered by BX pursuant to Options 3, Section 15(c)(2). The proposed new Delta and Vega thresholds are optional risk protections. In connection with this change, the Exchange also proposes to restructure its rules regarding Rapid Fire and "Multi-Trigger" risk protections to more closely align with the BX's rule structure which has identical language to the proposed Phlx rule text.[92] With the proposed changes, Rapid Fire and Multi-Trigger will be triggered only when a Market Maker exceeds its designated thresholds similar to BX's approach, instead of when the thresholds are met or exceeded (as is currently the case).

Today, Rapid Fire is a risk protection that removes a Market Maker's quotes and SQF interest[93] in all options series of an underlying security from the marketplace when certain designated percentage-based or volume-based thresholds are met or exceeded. Market Makers are required to utilize either the percentage-based threshold or the volume-based threshold.[94] The Exchange proposes to amend the current Rapid Fire functionality to no longer remove IOC Orders submitted through SQF and continue to remove quotes. Today, ISE, GEMX, MRX and BX only remove quotes through SQF and

92 As presently set forth in Phlx Options 3, Section 15(c)(2)(C), the Exchange's Multi-Trigger functionality removes Market Maker quotes in all options series in all underlying issues when a specified number of Rapid Fire thresholds are triggered over a chosen interval.

93 Today, the exchange's SQF protocol permits Market Makers to submit both quotes and Immediate-or-Cancel or "IOC" Orders to the Exchange. Phlx Supplementary Material .03(A) of Options 3, Section 7 provides, "Specialized Quote Feed" or "SQF" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from 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) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2) and (b)(2), respectively.

94 See Phlx Options 3, Section 15(c)(2)(G). In contrast, the Multi-Trigger threshold is optional.

do not remove IOC Order submitted through SQF.[95] The Exchange believes that preserving an IOC Order submitted through SQF is consistent with the Act as Market Makers quote to provide liquidity on the Exchange and the risk protection is intended to provide a protection to those participants when acting as liquidity providers. Market Makers utilizing IOC Orders may also provide liquidity but to a lesser extent. The Exchange believes that limiting the risk protection to quotes, similar to other Nasdaq affiliated markets, continues to protect investors while not also purging IOC orders which may interact against other interest on the Exchange.

The Exchange now proposes to introduce two optional thresholds which, in addition to the existing percentage-based and volume-based thresholds, will make up the suite of Rapid Fire thresholds that will be offered to Market Makers upon the technology migration. First, in new subparagraph (c)(2)(A)(iii) of Phlx Options 3, Section 15, the Exchange proposes to add:

> (iii) **Delta Threshold**. A Market Maker may provide a Delta Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (1) purchased call contracts plus sold put contracts and (2) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the member organization, the System will automatically remove a Market Maker’s quotes in all series of the options class.

The proposed rule text for Delta Threshold is identical to BX Options 3, Section 15(c)(2)(A)(iii).

Second, in new subparagraph (c)(2)(A)(iv) of Phlx Options 3, Section 15, the Exchange proposes to add:

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95 See ISE, GEMX and MRX Options 3, Section 15(a)(3)(B)(i). See also BX Options 3, Section 15(c)(2)(A).

> **Vega Threshold**. A Market Maker may provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

The proposed rule text for Vega Threshold is identical to BX Options 3, Section 15(c)(2)(A)(iv).

With the proposed changes to add the Delta and Vega Thresholds described above, the Exchange also proposes to amend its Rapid Fire and Multi-Trigger rules to align the rule structure with BX Options 3, Section 15(a)(2)(C). In restructuring these rules, the existing Phlx functionality will remain unchanged except with respect to when the Rapid Fire and Multi-Trigger thresholds will be triggered, and a minor change to the specified time period. Each will be discussed in more detail below. The Exchange will separately describe the Active Quote Protection amendment proposed in Options 3, Section 15(c)(2)(B) below.

To effect this change, the Exchange proposes to adopt new rule text in Phlx Options 3, Section 15(c)(2)(A), which will provide that Market Makers are required to utilize the Percentage Threshold or Volume Threshold. The Exchange will also replace each instance of "Percentage-Based Threshold" and "Volume-Based Threshold" with "Percentage Threshold" and "Volume Threshold" throughout Options 3, Section 15(c)(2) to align with BX terminology. The Exchange further proposes to add that Market Makers may utilize the new Delta and Vega Thresholds to make clear that these thresholds are optional for Market Makers. The Exchange has determined not to make the new Delta and Vega Thresholds mandatory under this proposal, and will continue to require Market

Makers to utilize either the Percentage or Volume Threshold, for Market Makers who do not elect to use the Active Quote Protection discussed below in lieu of the Rapid Fire protections.

For each of these features, the System will automatically remove a Market Maker's quotes in all series in an options class when any of the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. As noted above, this is a change from current functionality where as amended, Rapid Fire will be triggered only when the Market Maker exceeds any of the designated thresholds. Currently, Rapid Fire is triggered when the designated thresholds are met or exceeded.[96] In addition, a Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the System will automatically remove a Market Maker's quotes in all series of an options class. This is another change from current functionality where today, the Specified Time Period established by the Market Maker for the Percentage and Volume Thresholds must not exceed 15 seconds.[97] The proposed changes on Phlx relating to when Rapid Fire will be triggered and the Specified Time Periods will align with BX Options 3, Section 15(c)(2)(A). By harmonizing Phlx's Rapid Fire rule to BX's rule in this manner, the Exchange seeks to simplify the regulatory requirements and increase the understanding of the Exchange's operations related to Rapid Fire for market participants on Phlx and on BX. The Exchange believes more consistent rules with its affiliated exchange will contribute to less complexity for market participants and more efficient regulatory compliance.

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96 See Phlx Options 3, Section 15(c)(2)(A) and (B).

97 See Phlx Options 3, Section 15(c)(2)(A) and (B).

Otherwise, the new rule text in Phlx Options 3, Section 15(c)(2)(A) will not change existing Rapid Fire functionality. In particular, the Specified Time Period will commence for an options class every time an execution occurs in any series in such option class and will continue until the System removes quotes as described in the Rule or the Specified Time Period expires. The Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. The Specified Time Periods will be the same value for each of the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold.[98]

The Exchange also proposes to replace the description of the existing Percentage Threshold in Phlx Options 3, Section 15(c)(2)(A) with new rule text in Options 3, Section 15(c)(2)(A)(i) as follows:

> **Percentage Threshold**. A Market Maker must provide a specified percentage ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each series in an options class, the System will determine (1) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (2) the sum of the Series Percentage in the options class ("Issue Percentage") during a Specified Time Period. The System tracks and calculates the net impact of positions in the same options class; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class during the Specified Time Period.

98 See id. for similar features in the current Percentage and Volume Thresholds.

With the proposed changes, the Percentage Threshold will be applied in the same manner as today, except with respect to the differences discussed above (i.e., when the Percentage Threshold will be triggered and the threshold's Specified Time Period). The proposed rule text is identical to BX Options 3, Section 15(c)(2)(A)(i).

The Exchange also proposes to replace the description of the existing Volume Threshold in Phlx Options 3, Section 15(c)(2)(A)(ii) with new rule text in Options 3, Section 15(c)(2)(A)(ii) as follows:

> **Volume Threshold**. A Market Maker must provide a Volume Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class when the Market Maker executes a number of contracts which exceeds the designated number of contracts in all series in an options class.

With the proposed changes, the Volume Threshold will be applied in the same manner as today, except with respect to the differences discussed above (i.e., when the Volume Threshold will be triggered and the threshold's Specified Time Period). The proposed rule text is identical to BX Options 3, Section 15(c)(2)(A)(ii).

In connection with the foregoing changes, current Phlx Options 3, Section 15(c)(2)(C), which describes the Exchange's Multi-Trigger risk protection, will be amended throughout to add the Delta and Vega Thresholds wherever the Rule references Percentage and Volume Thresholds. In addition, the Exchange proposes to amend the Multi-Trigger Specified Time Period from 15 seconds to 30 seconds to align with the Specified Time Periods proposed above. The Exchange further proposes in the Multi-Trigger rule to amend when Multi-Trigger will be triggered to align with the Rapid Fire changes proposed above. Specifically, the Exchange proposes to amend the provision, "[o]nce the System determines that the number of triggers equals or exceeds a number…"

to instead state, "[o]nce the System determines that the number of triggers exceeds a number…" to make clear that Multi-Trigger will no longer remove Market Maker quotes when the Multi-Trigger threshold is met (and not exceeded).

Phlx Options 3, Section 15(c)(2)(D), which explains how the System purges quotes once the Rapid Fire and Multi-Trigger thresholds are triggered, will be amended to conform with the changes proposed above. In particular, the Exchange proposes conforming changes to add the Delta and Vega Thresholds wherever these provisions reference Percentage and Volume Thresholds, and to replace "reached" with "exceeded" in each instance where the language indicates that the Rapid Fire and Multi-Trigger thresholds have been reached.[99]

Phlx Options 3, Section 15(c)(2)(E) will likewise be amended to add references to the Delta and Vega Thresholds, and will state that if a Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Specified Time Period(s) for the Percentage, Volume, Delta, or Vega Threshold.[100] As is the case today, the Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.

Phlx Options 3, Section 15(c)(2)(F), which sets forth the re-entry process once Rapid Fire and Multi-Trigger are triggered, the Exchange will likewise add references to the Delta and Vega Thresholds wherever the provision refers to the Percentage and Volume Thresholds. The Exchange also proposes a clarifying change in the first

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99 The Exchange will describe the amendments to proposed Options 3, Section 15(c)(2)(D)(i) and (ii) further below.

100 The Specified Time Period(s) will also be automatically reset if Rapid Fire is triggered (and the System automatically removes quotes).

sentence to add, "[w]hen the System removes quotes as a result of exceeding…" in order to align with BX Options 3, Section 15(c)(2)(F). The Exchange further proposes a non-substantive change in the first sentence to amend "reentry" to "re-entry"

Lastly, Options 3, Section 15(c)(2)(G), will be amended to specify that the Exchange will require Phlx Market Makers to utilize either the Percentage Threshold, the Volume Threshold, or the Contract Limit. For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge. The Delta, Vega, and Multi-Trigger Thresholds are optional. The Exchange is adding "Contract Limit" to the required risk protections that must be utilized by a Phlx Market Maker.

The following are examples to illustrate how the proposed Delta and Vega Thresholds would apply:

Example: Delta Threshold

MM1 has Delta Threshold set to 10 contracts

MM1 quotes IBM Call Option 2.55 (100) x 3.00 (1000)

FIX Order to Sell 11 @ MKT trades with MM quote

Trade occurs for 11 @ 2.55, triggers Rapid Fire for MM1 since 11 calls purchased for MM1 > MM1's Delta Threshold of 10

Example: Vega Threshold

MM1 has Vega Threshold set to 10 contracts

MM1 quotes IBM Call Option 2.55 (100) x 3.00 (1000)

FIX Order to Sell 11 @ MKT trades with MM quote

Trade occurs for 11 @ 2.55, triggers Rapid Fire for MM1 since 11 calls purchased for

MM1 > MM1's Vega Threshold of 10

Active Quote Protection

The Exchange proposes to adopt an active risk counter functionality called active quote protection ("Active Quote Protection"), at Phlx Options 3, Section 15(c)(2)(B), which will be available to Market Makers as an alternative to existing passive risk counter functionality described in Options 3, Section 15(c)(2)(A) (i.e., "Automated Quotation Adjustments" or Rapid Fire).[101] The proposed Active Quote Protection functionality will be identical to BX Options 3, Section 15(c)(2)(B). Today, the Exchange requires Market Makers to configure risk exposure thresholds based on either percentage of executed quotes ("Percentage Threshold") or total number of executed contracts ("Volume Threshold"). Also, as proposed herein, the Exchange proposes two optional risk exposure thresholds based on the absolute value of the difference between long and short positions ("Delta Threshold"), and absolute value of the difference between contracts bought and contracts sold ("Vega Threshold") (collectively, "Thresholds").[102] As set forth in Options 3, proposed Section 15(c)(2)(A), the System tracks each Threshold with a corresponding risk counter over a Market Maker-specified rolling time period not to exceed 30 seconds. Furthermore, Section 15(c)(2)(A) describes that when a risk counter exceeds the corresponding Threshold during the specified time period, the System would automatically remove the Market Maker's quotes in all series of the applicable options class (each, a "Purge Event"). As a result of a Purge Event, the

[101] As described below, the Exchange will specifically define this passive risk counter functionality as "Rapid Fire" within this Rule.

[102] The proposed Thresholds are described in detail in Phlx Options 3, Section 15(c)(2)(A)(i) – (iv). If a Market Maker does not provide a parameter for each Threshold, the Exchange will apply default parameters announced to member organizations.

corresponding risk counter and Threshold would reset upon such removal. The Exchange also notes that pursuant to Section 15(c)(2)(E) today, the Thresholds and risk counters can be completely reset if the Market Maker specifically requests the System to remove quotes in all options series in an underlying issue. This risk protection is passive in that the risk counters wait to reset until the expiry of a specified time period, a Purge Event, or when the Market Maker otherwise sends a specific instruction to the Exchange to remove quotes to completely reset the counters.

The Exchange now proposes to introduce a new risk protection, which is an alternative to Rapid Fire, called Active Quote Protection that would enable Market Makers to actively manage their executed contract limit ("Contract Limit") by sending an electronic instruction to the Exchange to decrement their executed contract limit counter ("Limit Counter") by a specified amount at any time, rather than waiting until the expiry of a defined time period, when the risk limit is exceeded (like a Purge Event), or when the Market Maker otherwise sends a specific instruction to purge quotes to completely reset the risk counter.[103]

The Contract Limit, as set by the Market Maker, would apply for the duration of the trading day. Once the Market Maker's Limit Counter exceeds the Contract Limit set by the Market Maker, the System would automatically remove quotes in all series of the applicable options class submitted through the Exchange's Specialized Quote Feed protocol,[104] identical to how the quote removal mechanism works for a Purge Event

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103 If the Market Maker opting to use Active Quote Protection does not provide a Contract Limit at the outset, the Exchange will apply a default parameter for the Active Quote Protection Contract Limit (which would be announced to member organizations). The Exchange will initially set the default Contract Limit at 100 contracts.

104 Specialized Quote Feed or "SQF" is an interface that only Market Makers may use to submit quotes to the Exchange at renumbered Supplementary Material .03(B) to Options 3, Section 7.

today.[105] Today, Purge Events are triggered under the existing Quotation Adjustments on the first execution that exceeds the applicable Threshold. Once an execution occurs, the System checks all Thresholds to see if they have been exceeded. If exceeded, the Market Maker's quote would be purged pursuant to Phlx Options 3, Section 15(c)(2)(C). In order to remain consistent with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS, any marketable orders or quotes that are executable against a Market Maker's quotes that are received[106] prior to the time the applicable Threshold is triggered will be automatically executed up to the size of the Market Maker's quote, regardless of whether the execution would cause the Market Maker to exceed their pre-set Percentage Threshold, Volume Threshold, Delta Threshold, or Vega Threshold.[107]

Under Active Quote Protection, the System would similarly handle the Market Maker's quote in that the quote could be filled one execution over the Contract Limit before the Market Maker's remaining quotes are cancelled by the System in order to be consistent with the firm quote obligations under Rule 602 of Regulation NMS. Specifically, the Exchange notes that any marketable orders or quotes that are executable against a Market Maker's quotes that are received[108] prior to the time the Contract Limit is triggered will be automatically executed up to the size of the Market Maker's quote,

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105 See Options 3, Section 15(c)(2)(C).

106 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

107 See proposed Phlx Options 3, Section 15(c)(2)(D)(ii).

108 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

regardless of whether the execution would cause the Market Maker to exceed the Contract Limit.[109]

Additionally, under Active Quote Protection, Market Makers will be able to submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero.[110] Market Makers that elect to use the proposed Active Quote Protection on a badge[111] will not be able to use the existing Threshold risk protections described above on the same badge (i.e., the active and passive risk counter functionality would be mutually exclusive per badge) given that it would be unnecessarily complex to implement from a technology standpoint. Market Makers may be associated with multiple badges today, so if they want to use both risk protections for their activity on the Exchange, they will be able to set either the active or passive risk counter functionality on each badge.

To effectuate the foregoing changes, the Exchange proposes to set forth the new risk protection in paragraph (B) of Phlx Options 3, Section 15(c)(2), as follows:

> In lieu of Rapid Fire, a Market Maker may provide an executed contract limit ("Contract Limit") that, if exceeded, the System will automatically remove the Market Maker's quotes in all series of an options class submitted through SQF. The System will apply the Contract Limit for the duration of the trading day. For each class of options, the System will maintain an active limit counter that will track the current number of contracts executed through the Market Maker's quotes ("Limit Counter").

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109 For both the current Quotation Adjustments and proposed Active Quote Protection, the System will execute marketable interest up to the size of the Market Maker's quote, but cannot guarantee interest will be fully executed, as is the case with any execution in the Exchange's order book. There is always the possibility that the Market Maker's quote size (and/or Market Maker's quote plus other interest on the order book) may not be sufficient volume to fill the incoming interest.

110 As discussed later in this rule change, in order to re-enter the System after their quotes are purged pursuant to the Active Quote Protection, Market Makers will need to submit the same request to fully decrement their Limit Counter to zero.

111 Phlx Options 1, Section 1(b)(6) provides that the term "badge" means an account number, which may contain letters and/or numbers, assigned to Lead Market Makers and Market Makers. A Lead Market Maker or Market Maker account may be associated with multiple badges.

> If the Limit Counter exceeds the Contract Limit established by the Market Maker, the System will automatically remove the Market Maker's quotes as described in Section 15(c)(2)(D). Market Makers may submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero, including to re-enter the System as described in Section 15(c)(2)(E). For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge.

The Exchange also proposes to amend proposed paragraph (G) of Phlx Options 3, Section 15(c)(2) to specify that the active and passive risk counter functionality will be mutually exclusive per badge). As amended, proposed paragraph (G) will provide:

> The Exchange will require Phlx Market Makers to utilize either the Percentage Threshold, the Volume Threshold, or the Contract Limit. For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge. The Delta, Vega, and Multi-Trigger Thresholds are optional.

As described above, once the Limit Counter exceeds the Contract Limit set by the Market Maker under the proposed Active Quote Protection, the System would automatically remove quotes in the same manner as currently specified for a Purge Event in proposed paragraph (D) of Phlx Options 3, Section 15(c)(2). Accordingly, the Exchange proposes to add Active Quote Protection's Contract Limit throughout the proposed Rule as noted herein. Specifically, proposed paragraph (D) will provide that the System will automatically remove quotes in all series of an options class in an underlying security when the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or the Contract Limit has been exceeded. The System will automatically remove quotes in all series of an option class in all underlying securities when the Multi-Trigger

Threshold[112] has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected options when the above thresholds have been exceeded. Proposed subparagraph (D)(i) will provide that the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, Contract Limit, and Multi-Trigger Threshold are considered independently of each other.

Further, as discussed above, any marketable orders or quotes that are executable against a Market Maker's quotes that are received[113] prior to the time the applicable Threshold or Contract Limit is triggered will be automatically executed up to the size of the Market Maker's quote, even if such execution would cause the Market Maker to exceed any of their pre-set risk limits with respect to any of the foregoing risk parameters. The Exchange notes that proposed sub-paragraph (D)(ii) only mentions that quotes will execute up to the Market Maker's size, and is silent on marketable orders. In addition, the current Rule does not specify the time of receipt of such marketable interest that is executable against the size of the Market Maker's quote. As such, the Exchange proposes to add this specificity in proposed sub-paragraph (D)(ii) to better describe how the System operates today for Quotation Adjustments and how the System will operate for proposed Active Quote Protection. In particular, sub-paragraph (D)(ii) will provide:

> The System will execute any marketable orders or quotes that are executable against a Market Maker's quote and received prior to the time the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or Contract Limit is triggered up to the size of the Market Maker's quote, even if such execution results in executions in excess of

112 Multi-Trigger Threshold is defined in current paragraph (C) of Section 15(c)(2) as the number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols as specified by the Exchange. This threshold is part of the Exchange's Multi-Trigger risk protection.

113 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

the Market Maker's applicable Threshold or Contract Limit with respect to any parameter.

In addition, when the System removes quotes as a result of exceeding the Contract Limit under Active Quote Protection, the Exchange proposes to require the Market Maker to submit a request to re-enter the System. This request will be the same type of message as the request described in proposed paragraph (B) where the Market Maker must request to fully decrement their Limit Counter back to zero in order to re-enter the System. This requirement will be added in proposed paragraph (F) of Phlx Options 3, Section 15(c)(2), and will be similar to how the existing quote purge mechanism works for the Thresholds today, except the Market Maker needs to send a separate message (i.e., a re-entry indicator) to re-enter the System when their quotes are purged as a result of exceeding any of the existing Thresholds.

The Exchange also proposes that the new Active Quote Protection would leverage the existing and amended multi-trigger ("Multi-Trigger") functionality proposed in Phlx Options 3, Section 15(c)(2)(C). Today, Multi-Trigger is a risk protection offered alongside the current Quotation Adjustments. A Market Maker or Market Maker Group, which is defined as multiple affiliated Phlx Market Makers,[114] may provide the specified time period and number of allowable Purge Events by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols as specified by the Exchange ("Multi-Trigger Threshold"). As proposed, Multi-Trigger is triggered when during a time period

114 This would be more than one Phlx Market Maker, but does not require the aggregation of all of the member organization's Market Makers. A Group would be comprised of Phlx Market Makers affiliated with one member organization (i.e., one options member firm). The member organization would be required to define a Group by providing a list of such affiliated Phlx Market Makers to the Exchange.

established by the Market Maker not to exceed 30 seconds, the total number of Quotation Adjustment Purge Events exceeds the Multi-Trigger Threshold provided to the Exchange by the Phlx Market Maker or Phlx Market Maker Group. When Multi-Trigger is triggered, the System automatically purges all of the Market Maker's or Group's quotes in all options series in an underlying issue. As set forth in proposed Phlx Options 3, Section 15(c)(2)(F), when the System removes quotes as a result of the Multi-Trigger Threshold, the Market Maker must manually request re-entry to the System by contacting the Exchange. Exchange staff must then set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the Phlx Market Maker or Group for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.

Today, Multi-Trigger is meant to provide Market Makers or a Group with protection from the risk of multiple executions across multiple series of an option or across multiple options. This risk protection recognizes that risk to Market Makers is not limited to a single series in an option or even to all series in an option; Market Makers that quote in multiple series of multiple options have significant exposure, requiring them to offset or hedge their overall positions. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. Multi-Trigger is therefore intended to assist Market Makers or Groups in managing their market risk by tracking the number of Purge Events relative to the Multi-Trigger Threshold set by the Market Maker or Group. The Exchange believes that tracking the number of Active Quote Protection Purge Events for a Market Maker or Group against its Multi-Trigger Threshold would be similarly useful for managing market risk.

To that end, the Exchange proposes to further update Multi-Trigger to add purge events under Active Quote Protection to the Multi-Trigger counter such that Active Quote Protection purge events and Purge Events under the current Quotation Adjustments will be aggregated together as counting toward the specified Multi-Trigger Threshold. Accordingly, the Exchange proposes to add references to the Active Quote Protection rule (i.e., proposed paragraph (B) of Options 3, Section 15(c)(2)) throughout the Multi-Trigger rule in proposed paragraph (C), specifically:

> A Market Maker or Market Maker Group (multiple affiliated Market Makers is a "Group" as defined by a Phlx member and provided by such member to the Exchange) may provide a Specified Time Period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols, as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period established by the Phlx Market Maker not to exceed 30 seconds ("Multi- Trigger Specified Time Period"), the number of times the System automatically removes the Phlx Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage Threshold described in paragraph (A)(i) above, the Volume Threshold described in paragraph (A)(ii) above, the Delta Threshold described in paragraph (A)(iii) above, the Vega Threshold described in paragraph (A)(iv) above, and the Contract Limit described in paragraph (B) above. Once the System determines that the number of triggers exceeds a number established by either the Phlx Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Phlx Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Phlx Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes in all options series in an underlying issue. A Multi-Trigger Specified Time

Period will commence after every trigger of the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or Contract Limit and will continue until the System removes quotes as described in paragraph (D) below or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the Phlx Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

The following example illustrates the proposed behavior of the Active Quote Protection risk protection:

<u>Active Quote Protection Example</u>

Market Maker AAPL

Contract Limit: 100

Market Maker trades a transaction for 10 contracts in AAPL; Limit Counter goes from 0 to 10.

Market Maker sends a request to decrement its Limit Counter in AAPL for 10 contracts; Limit Counter goes from 10 to 0.

Market Maker trades a transaction for 20 contracts in AAPL; Limit Counter goes from 0 to 20.

Market Maker trades a transaction for 50 contracts in AAPL; Limit Counter goes from 20 to 70.

Market Maker sends a request to decrement its Limit Counter in AAPL for 20 contracts; Limit Counter goes from 70 to 50.

Market Maker trades a transaction for 60 contracts in AAPL; Limit Counter goes from 50 to 110 and all Market Maker quotes in AAPL are automatically purged after the execution because the Limit Counter exceeded the Market Maker's Contract Limit of 100 executed contracts.

At this point, the Market Maker must send a request to fully decrement its Limit Counter in AAPL back to zero in order to begin quoting again.

<u>Multi-Trigger Active Quote Protection Example</u>

Assume Market Maker in AAPL and SPY has Quotation Adjustments set for AAPL and Active QP set for SPY.

Market Maker sets its Multi-Trigger Threshold so that it is triggered at 25 purge events within a 20 second time period.

On a given trading day, if an Active Quote Protection Purge Event is triggered 15 times in SPY and a Quotation Adjustment Purge Event is triggered 11 times in AAPL, all within 20 seconds, then the Exchange will automatically remove all of the Market Maker's quotes AAPL and SPY because 26 purge events were triggered for the Market Maker.

Lastly, the Exchange proposes to title paragraph (A) as "Rapid Fire" and paragraph (C) as "Multi-Trigger" to more clearly identify which rules apply to which risk protections.

Post-Only Quoting Protection

The Exchange proposes to adopt an optional quoting protection for Market Makers at Phlx Options 3, Section 15(c)(3) that will be identical to BX Options 3, Section 15(c)(3). This optional risk protection would allow Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry. As proposed, Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). A Post-Only Quote Configuration would re-price or cancel a Market Maker's quote that would otherwise lock or cross any resting order or quote[115] on the order book upon entry. Market Makers may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced and displayed by the System to one

115 This would include any re-priced orders pursuant to Phlx Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Phlx Options 3, Section 4(b)(6). As described above, ALOs may re-price.

MPV below the current best offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).[116] When configured for cancel, Market Makers will have their quotes cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. Finally, the Exchange notes that similar to BX, this risk protection will not apply during an Opening Process because the order book is established once options series are open for trading. Below are some Post-Only Quote Configuration examples.

<u>Re-Priced Post-Only Quote Configuration—Penny Interval Program Display and Execution Example</u>

Penny Interval Program MPV in open trading state

Market Makers A and C do not have Post-Only Quote Configuration risk protection configured

Market Maker B is configured for Post-Only Quote Configuration re-price

Market Maker A quote \$0.98 (10) × \$1.00 (10)

ABBO \$0.96 × \$1.03

Market Maker B quote \$1.00 (10) × \$1.01 (10) arrives

○ Bid side of quote re-prices onto order book @ 0.99 and sets displayed NBBO to 10 quantity

○ Offer side rests at 1.01 without issue

116 Phlx Options 3, Section 4(b)(6) provides that a quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will either be re-priced and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, or immediately cancelled, as configured by the Member.

Market Maker C quote \$0.97 (20) × \$0.98 (20) arrives

Trades 10 with Market Maker B @ \$0.99 and 10 with Market Maker A @ \$0.98

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured for such, removes liquidity by interacting with re-priced interest on Phlx's order book.

<u>Re-Priced Post-Only Quote Configuration—Non-Penny Interval Program Display and Execution Example</u>

Non-Penny Interval Program MPV in open trading state

Market Maker A quote \$0.95 (10) × \$1.00 (10)

ABBO \$0.85 × \$1.05

Market Maker B (configured for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives \$1.00 (5) × \$1.05 (5)

○ Bid side quote re-prices on order book to \$0.95

○ Displays on order book @ \$0.95 (bid), which now shows (15 quantity)

○ Offer side quote books and displays in Depth of Market Feed at \$1.05

Order to sell 10 contracts arrives @ \$0.95

○ 7 contracts execute with Market Maker A @ \$0.95

○ 3 contracts execute with Market Maker B @ \$0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote Configuration with re-price.

<u>Options 3, Section 23</u>

The Exchange proposes to amend Phlx Options 3, Section 23, Data Feeds and Trade Information. The Exchange proposes to rename various market data feeds in Phlx Options 3, Section 23(a) to harmonize the names of the feeds to ISE, GEMX and MRX market data feeds at Options 3 Section 23(a). Specifically, the Exchange proposes to rename "Top of PHLX Options" to "Nasdaq Phlx Top of Market" but continue to utilize

"TOPO" as the acronym. The Exchange proposes to rename "PHLX Orders" as "Nasdaq Phlx Order Feed." Finally, the Exchange proposes to rename "PHLX Depth of Market" as "Nasdaq Phlx Depth of Market." The Exchange proposes similar amendments to the name of the feeds at Options 7, Section 9, B.

The Exchange proposes to no longer offer TradeInfo, which is a user interface set forth in Phlx Options 3, Section 23(b)(2) that permits a member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. Due to the lack of demand for this interface by member organizations the Exchange is retiring the interface. The Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced technology platform with the technology migration. The Exchange notes that FIX and the Clearing Trade Interface ("CTI"),[117] which are available to all member organizations, can be used today to obtain order information that is currently available within TradeInfo, and FIX can be used to cancel orders today.

Additionally, the Exchange proposes to remove the $95 per user, per month TradeInfo Interface Fee in the Pricing Schedule at Options 7, Section 9, B. The fee would not be necessary once TradeInfo is discontinued.

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[117] CTI is a real-time clearing trade update message that is sent to a member after an execution has occurred and contains trade details specific to that member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or "OCC" number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity. See Options 3, Section 23(b)(1).

<u>Options 3, Section 28</u>

The Exchange proposes to introduce optional quantity and notional value checks in new Phlx Options 3, Section 28, entitled “Optional Risk Protections.” The proposed optional order risk protections will be identical to the protections currently offered by ISE, GEMX and MRX Options 3, Section 28. Member organizations may use this voluntary functionality through their FIX protocol to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, member organizations may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1)-(4):

(1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;

(2) Daily aggregate notional dollar value;

(3) Quantity per order; and

(4) Daily aggregate quantity

Proposed paragraph (b) will provide that member organizations may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Member organizations may modify their settings through Market Operations. Proposed paragraph (c) will provide that the System will reject all incoming aggregated member organization orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the member organization is exceeded. Proposed paragraph (d) will provide that the System will reject all incoming member organization orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the member organization is exceeded by the incoming order. The

Exchange notes that the difference in handling between aggregate and individual order protections is necessary to allow for complete processing of the final order that puts a member organization's configured value over the aggregate values configured. While individual orders can be directly measured against the configured values for (a)(1) and (a)(3), the aggregate values must be calculated after complete processing of an order and thus the rejection of orders begins upon the arrival of the next order after the aggregate values in (a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming aggregated orders after the (a)(2) or (a)(4) values configured by the member organization have been exceeded.

Optional Risk Protection Example

Aggregate Quantity Limit = 800.

Member organization enters an order to Buy 500 – Accepted

Member organization enters an order to Buy 400 – Accepted (member organization did not meet the configured limit of 800 with the first order of 500 at the time Member organization entered the second order)

Member organization enters an order to Buy 1 – Rejected (member organization already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the member organization have been exceeded by the arriving order:

Quantity Per Order Limit = 800.

Member organization enters an order to Buy 801 – Rejected (member organization exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a member organization sets a notional dollar value, a Market Order would not be accepted from that member organization. This is because notional dollar value is calculated by using an order's specified limit price, and

Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX. Additionally, all of the proposed settings will be firm level.

Options 5, Section 4

The Exchange proposes to amend Options 5, Section 4, Order Routing, to align Phlx's routing to ISE Options 4, Section 5.

The Exchange proposes to amend Phlx Options 5, Section 4(a) to include Stop-Limit Orders in addition to Stop Orders in the list of order types that are not included in the PBBO because they have not been triggered. Today, Phlx's Stop Order description refers to both a market and limit order. The Exchange's proposal adopts the Stop Order at ISE Options 3, Section 7(d) and Stop Limit Order at ISE Options 3, Section 7(e). The Exchange proposes to reflect both order types. As is the case today, the Exchange proposes to note, similar to ISE Options 4, Section 5(a), that when checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. The Exchange believes that this sentence will bring greater clarity to the Exchange's rule. Similarly, the Exchange proposes to add text to clarify its current System behavior for TIFs. Today, routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The Exchange also believes this sentence will clarify the current operation of the routing System. Finally, as is the case today, the Exchange proposes to note the time the routing System is available, the ability to list an order as non-routable and cross-reference the locked and crossed rules. The Exchange would state, "The order routing process shall be available to members from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Member organizations can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules." This proposed rule text provides greater transparency to the Exchange's current System operation and harmonizes Phlx's rule text to ISE Options 4, Section 5(a).

The Exchange proposes some modifications to its FIND Order in Phlx Options 5, Section 4(iii)(B) to conform to ISE Options 5, Section 4(iii)(B). By way of background, a FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. Phlx proposes to add the following language to the end of Options 5, Section 4(iii)(B) to reflect its current routing functionality, "FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day *and post to the order book, even in the event that there is a new Opening Process after a trading halt.*" Phlx also proposes to add rule text to the end of Phlx Options 5, Section 4(a)(iii)(B) which states, "…and post to the Order book, even in the event that there is a new Opening Process after a trading halt" to make clear that the FIND Order would post to the Order Book and not route again, even if there were a new Opening Process.[118]

[118] FIND Orders that are not marketable with the ABBO upon receipt are handled differently than FIND Orders that are marketable with the ABBO upon receipt. FIND Orders that are marketable with the ABBO upon receipt would be eligible for routing the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt. FIND Orders that are not marketable with the ABBO upon receipt will not be subject to routing even in the event that there is a new Opening Process after a trading halt. The handling of FIND Orders on Phlx is identical to ISE Options 5, Section 4(a)(iii)(B).

The Exchange proposes to amend Phlx Options 5, Section 4(iii)(B)(1). The Exchange proposes to remove the following sentences, "With respect to an Opening Process, only a Public Customer and Professional FIND Order on the Order Book, whether it is received prior to the opening or it is a GTC FIND Order from a prior day, may be routed at the conclusion of an Opening Process. Non-Public Customer and non-Professional FIND Orders are not eligible for routing at the conclusion of an Opening Process." Phlx proposes to amend its routing functionality to permit all market participants to route, not just Public Customer and Professional FIND Orders. To this end, Phlx proposes to remove this limitation. The Exchange proposes to amend the next sentence which state, "At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will be executed pursuant to Options 3, Section 8(k)." The Exchange proposes to instead provide, "At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price *will execute or book* pursuant to Options 3, Section 8(k)." The Exchange noted in proposed Phlx Options 5, Section 4(iii)(B) that a FIND Order may post to the order book in certain cases. This rule text adds clarity to the rules by naming all possible scenarios. Finally, the Exchange proposes to remove the last sentence of this paragraph which states, "Such FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process." The Exchange is removing this sentence because of the addition to the end of Options 5, Section 4(a)(iii)(B). The Opening Process at Phlx Options 3, Section 8(k), describes the manner in which orders route at the end of that process. This sentence is not necessary within this routing rule. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day, and will not be subject to routing even in the event that there is a new Opening Process after a trading halt.[119]

Phlx Options 5, Section 4(iii)(B)(2) currently states,

> With respect to an Opening Process, if during a route timer at the conclusion of an Opening Process pursuant to Options 3, Section 8(k) markets move such that the FIND Order is executable against Exchange interest, the FIND Order will immediately execute. If during a route timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the PBBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the route timer. If the ABBO worsens but remains better than the PBBO, the FIND Order will reprice and be reexposed at the new price(s) without interrupting the route timer.

In order to more efficiently display the various potential routing scenarios, without repeating certain rule text several times throughout the rule, the Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(2), similar to ISE Options 5, Section 4(a)(iii)(B)(2), to describe the potential scenarios that may occur for a FIND Order. The proposed paragraph provides,

> Generally, a FIND Order will be included in the displayed PBBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO

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119 Orders that route during an Opening Process route at the end of the Opening Process, when the Exchange simultaneously opens an options series and routes. Thereafter, FIND Orders that were submitted after the Opening Process would attempt once to route until the FIND Order rests on the Order Book. Once it rests on the Order Book, the FIND Order would not route until the next Opening Process. Finally, an Opening Process may occur intra-day if there was a trading halt. After a trading halt BX would reopen with an Opening Process and the FIND Order would be eligible to route once again.

> when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during a Route Timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the BBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the BBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

This paragraph utilizes the term "generally" because it always applies to FIND Orders. The Exchange proposes to state that a FIND Order will be included in the displayed BBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO.[120] This statement will provide context to the FIND Order and would apply consistently to FIND Orders. The Exchange further proposes to provide that if there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO.[121] The Exchange further proposes to describe the possible scenarios that may occurring during a Route Timer, when ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the BBO, the FIND Order will always post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route each time at the completion of the Route Timer. In

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120 This sentence is currently located in Phlx Options 5, Section 4(iii)(B)(5).

121 This sentence is currently located in Phlx Options 5, Section 4(iii)(B)(5).

the situation where an ABBO worsens, but remains better than the BBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer, each time. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade always against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.[122] The Exchange believes that describing these scenarios in this introductory paragraph will provide a basis to understand certain FIND Order behaviors in certain circumstances and eliminate the need to have these circumstances repeated throughout the rule. The Exchange proposes to remove the first sentence of Phlx Options 5, Section 4(a)(iii)(B)(2) because it is covered within Phlx Options 3, Section 8(k), which describes the Opening Process. The Exchange believes that this paragraph, as amended, will provide greater clarity as to all the possible scenarios and will harmonize Phlx's rule to ISE's rule.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(3) to add "A FIND Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book at its limit price. The FIND Order will be treated as DNR for the remainder of the trading day*, even in the event that there is a new Opening Price after a trading halt*" to the end of the paragraph. This text is similar to ISE Options 5, Section 4(a)(iii)(B)(3). Phlx treats FIND Orders received after an Opening Process that are not marketable against the BBO or the ABBO in the same manner as ISE. Phlx is adding this rule text to make clear that the FIND Order will

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[122] This sentence is currently located in Phlx Options 5, Section 4(iii)(B)(5).

not route, even if there is a new Opening Process to reflect current System functionality. The Exchange will not allow a non-marketable order to route. The same sentence is being added to Phlx Options 5, Section 4(a)(iii)(B)(4) for clarity.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(5) to remove sentences that were relocated to Phlx Options 5, Section 4(a)(iii)(B)(2) as noted above.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(6) to amend the penultimate sentence to note that an Opening Process may occur after a trading halt. An Opening Process would occur intra-day if there was a trading halt. After a trading halt, Phlx would reopen with an Opening Process. This is the case today and this rule text accounts for this potential scenario. The Exchange is removing the final sentence which states, "The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt." As noted above, Phlx proposes to amend its routing functionality to permit all market participants to route, not just Public Customer and Professional FIND Orders. The Exchange is removing this sentence which is unnecessary as orders of all market participants will route. The same amendments were also made to Phlx Options 5, Section 4(a)(iii)(B)(8).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(7) to remove the final sentence as that concept was relocated to Phlx Options 5, Section 4(a)(iii)(B)(2) in the section that generally describes routing.

The Exchange proposes some modifications to its SRCH Order in Phlx Options 5, Section 4(iii)(C) to conform to ISE Options 5, Section 4(iii)(C). By way of background, a SRCH Order is routable at any time the option series is open for trading. Similar to the removal of restrictions related to Public Customer and Professional order for a FIND Order, the Exchange proposes to remove these limitations as to SRCH Order. The Exchange is adding a Good-Till-Date Order or GTD at proposed Supplementary Material .02(c) to Phlx Options 3, Section 7. Today, the Exchange does not offer a GTD Order. The GTD Order would be identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7. The Exchange proposes to add GTD to into Phlx Options 5, Section 4(iii)(C), similar to ISE Options 5, Section 4(iii)(C), to reflect how a GTD TIF would be handled by the System for a SRCH Order.[123]

The Exchange proposes to amend Phlx Options 5, Section 4(iii)(C)(1) to add a citation to the Opening Price at Options 3, Section 8(a)(iii). The Exchange also proposes to amend the rule text similar to the FIND Order to indicate that the SRCH Order would execute or book to account for all the scenarios that are possible today. The proposed rule text reflects current System functionality.

Similar to the FIND Order proposal, the Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(2) to provide general guidelines for the behavior of SRCH Orders which apply consistently. This proposed paragraph will allow the Exchange to more efficiently display the various potential scenarios without repeating certain rule text several times. The Exchange believes that describing these scenarios in this introductory paragraph will provide a basis to understand certain SRCH Order behaviors in certain circumstances and eliminate the need to have these circumstances repeated throughout the rule. Proposed Phlx Options 5, Section 4(a)(iii)(C)(2) provides,

> Generally, a SRCH Order will be included in the displayed BBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which

123 A GTD SRCH Order may be routed as part of the Opening Process.

> case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order is entered onto the Order Book, the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. If during a Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO, the SRCH Order will book at its limit price. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. The System will route and execute contracts contemporaneously at the end of the Route Timer.

Generally, a SRCH Order will be included in the displayed PBBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO, similar to other routing order types. Also, if there is a locked ABBO when the SRCH Order is entered onto the Order Book, the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO to avoid locking the away market. The Exchange proposes to generally state, "Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market." This provision is always true of SRCH Orders.

Next, the Exchange provides scenarios that generally may occur during a Route Timer. The first scenario is if during a Route Timer, ABBO markets move such that the

SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO. In this case, the SRCH Order will book at its limit price. The next scenario is whether during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If new interest arrives that is equal to or better than the ABBO price, the SRCH Order will trade at the ABBO price. If new interest arrives that is marketable against the SRCH Order it will trade at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. This last sentence makes clear that the SRCH Order would execute at the previous ABBO price as the away market crossed a displayed price. Better priced incoming interest will execute against the SRCH Order, unless the ABBO crosses the SRCH Order, in which case any new interest will execute at the SRCH Order price. In this scenario, Phlx's price was already displayed when an away market subsequently crossed Phlx's displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. Also, if an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer, each time. Finally, if the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. The Exchange notes that the System will route and execute contracts contemporaneously at the end of the Route Timer. The proposed rule text is identical to ISE Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(3), which is being renumbered, to add "at its limit price" to specify at which price the SRCH Order would be entered on the Order Book if not marketable.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(4), which is being renumbered, to make a technical amendment to change "at" to "on". The Exchange also proposes to remove "price equal to the" because it is unnecessary. Finally, the Exchange proposes to remove the last sentence, "Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market." This sentence was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(5), which is being renumbered, to make a technical amendment to change "at" to "on". The Exchange also proposes to add "the remainder of the" to make clear that this sentence is about size remaining on the order after exhausting the PBBO. Finally, the Exchange proposes to remove the last two sentences that were relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(6), which is being renumbered, to add "to an away market" to more clearly state where the order is being routed to. The Exchange proposes to remove "locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If the SRCH Order" because this scenario was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2). The Exchange is updating citations and capitalizing book and adding Order before it. The Exchange proposes to remove the last sentence that was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(7), which is being renumbered, to remove the second, four, fifth and final sentence that were relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(8), which is being renumbered, to update citations and pluralize "price". The Exchange proposes to remove the last sentence that was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2). The Exchange also proposes to remove current Phlx Options 5, Section 4(a)(iii)(C)(8) and (9) which were relocated to Phlx Options 5, Section 4(a)(iii)(C)(2). Finally, the Exchange proposes to renumber current relocated to Phlx Options 5, Section 4(a)(iii)(C)(10) as "9".

Options 6, Section 1

The Exchange proposes to amend Options 6, Section 1, Authorization to Give Up, to align Phlx's process to that of ISE, GEMX and MRX Options 6, Section 1. The Exchange proposes to remove "with respect to floor trading only" from Options 6, Section 1(a). With this technology migration, for each transaction in which a member organization participates, the member organization may indicate, at the time of the trade, or through post trade allocation, any Options Clearing Corporation number of a Clearing Member through which a transaction will be cleared ("Give Up"), provided the Clearing Member has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s) ("Restricted OCC Number"). With this change, the provision for "at time of trade" will apply to both floor and electronic trading, therefore, electronic only members may indicate a Give-Up at the time of trade. Today, electronic trading members indicate a Give-Up in the post allocation process. The Exchange's automation of the Give-Up process will permit it to prevent an unauthorized Give-Up of a Restricted OCC Number that is submitted to the System from being processed. The Exchange proposes to amend Options 6, Section 1(c) to add the following sentence, "If an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Member's default OCC clearing number." Because the Exchange is adding this automated feature, it proposes to remove the rule text in Options 6, Section 1(c)(ii) that provides, "For all other orders, the System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry." The Exchange will be able to prevent unauthorized Give Ups of Restricted OCC Numbers systematically, similar to ISE, GEMX and MRX Options 6, Section 1, and would not need this restriction in Options 6, Section 1(c)(ii).

Options 8, Section 32

The Exchange proposes some minor numbering amendments to Options 8, Section 32, Types of Floor-Based (Non-System) Orders. The Exchange proposes to renumber Options 8, Section 32(b), Contingency Order, as "5." The Exchange proposes to renumber Options 8, Section 32(b)(1), Stop-Limit Order as "i". The Exchange proposes to renumber Options 8, Section 32(b)(2), Stop (stop-loss) Order as "ii." The Exchange proposes to renumber Options 8, Section 32(b)(3), All or None Order as "iii."

The Exchange proposes to renumber Options 8, Section 32(b)(4), Cancel-Replacement Order as "iv." The Exchange proposes to renumber Options 8, Section 32(b)(5), Immediate or Cancel Order as "v." The Exchange proposes to renumber Options 8, Section 32(c), Time in Force or "TIF" as "b". Finally, the Exchange proposes to re-letter current Options 8, Section 32(d), Not Held Orders, as "c" and reserve "d".

The Exchange proposes to amend All-Or None Orders at current Phlx Options 8, Section 32(b)(3) to remove the restriction that only a Public Customer can only submit it. Consistent with the amendment to electronic All-or-None Orders, Phlx proposes to remove this restriction so that any market participant may enter an All-or-None Order. The Exchange also proposes to add an OPG TIF as an available TIF for the trading floor. Today, the TIF is available for floor participants. Any floor participant may enter the TIF of OPG on the trading floor. The Exchange's proposal to add the OPG TIF will provide greater clarity to the Exchange's rules.

Implementation

The Exchange will implement this rule change on or before December 20, 2025. Phlx would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

b. Statutory Basis

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

Act,[124] in general, and furthers the objectives of Section 6(b)(5) of the Act,[125] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As it relates to the elimination of fees for TradeInfo, the Exchange believes that its proposal is consistent with Section 6(b) of the Act,[126] in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,[127] in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Generally, the Exchange's proposal is intended to add or align certain System functionality with functionality currently offered on ISE, GEMX, MRX, BX or NOM in order to provide a more consistent technology offering across affiliated Nasdaq options exchanges. A more harmonized technology offering, in turn, will simplify technology implementation, changes, and maintenance by market participants of the Exchange that are also participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks to provide greater harmonization between the rules of the Exchange and its affiliates, which would result in greater uniformity, and less burdensome and more efficient regulatory compliance by market participants. As such, the proposal would foster cooperation and coordination with persons engaged in facilitating transactions in

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124 15 U.S.C. 78f(b).

125 15 U.S.C. 78f(b)(5).

126 15 U.S.C. 78f(b).

127 15 U.S.C. 78f(b)(4) and (5).

securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that more consistent rules will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. The proposal also seeks to memorialize existing functionality and add more granularity in the Exchange's rules to describe how existing functionality operates today. The Exchange believes that such changes would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would promote transparency in Exchange rules and reducing potential confusion, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's Rulebook and better understand how options trading is conducted on the Exchange.

Options 2, Section 6

The Exchange believes that permitting Market Makers to enter all eligible order types, except Reserve Orders, in both appointed and non-appointed options classes is consistent with the Act. Today, ISE, GEMX and MRX Options 2, Section 6 only restricts Market Makers from entering Reserve Orders. The Exchange proposes to permit Market Makers to enter Market Orders and Stop Orders similar to all other market participants on Phlx. Today, all market participants, including Market Makers, may transact Market Orders and Stop Orders on other options markets.[128] The Exchange does not believe there is any reason to restrict Market Makers from entering Market Orders or

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128 See Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX) Options 2, Section 6 and NYSE Arca, Inc. Rule 6.37B-O and NYSE American LLC Rule 925.2NY.

Stop Orders. In 2019, Phlx noted in its rule change[129] that it believes that continuing the practice of prohibiting Market Makers from entering Market Orders is consistent with the Act because Market Orders are designed to remove liquidity from the Order Book. Further, Stop Orders are non-displayed order types until they are triggered which does not benefit the role of a Market Makers in displaying liquidity on the Order Book. At this time, the Exchange believes that because there are restrictions on the number of contracts that a Market Maker may enter in a quarter,[130] Market Makers should be permitted to utilize Market Orders and Stop Orders to remove liquidity from its order book without impacting their ability to provide liquidity.

Today, Phlx restricts all market participants from entering All-or-None Orders except Public Customers. Similar to other options markets, the Exchange proposes to permit all market participants to enter All-or-None Orders. The Exchange is proposing to amend the All-or-None Order type in Options 3, Section 7 to reflect this proposed change. In 2019, the Exchange amended its All-or-None Order to no longer offer the order type to Professionals.[131] At the time, the Exchange noted that permitting Public Customers to enter All-or-None Orders with specific size limitations that rest on the

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129 See Securities Exchange Act Release No. 87691 (December 9, 2019), 85 FR 68197 (December 13, 2019) (SR-Phlx-2019-52) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Order Types and Remove and Relocate Certain Rule Text Currently Located Within Rule 1080).

130 Pursuant to Phlx Options 2, Section 6, the total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

131 See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (March 13, 2019) (SR-Phlx-2019-03) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Option Floor Procedure Advice A-9 and Phlx Rules 1000 and 1066 and To Adopt a New Phlx Rule 1078). Prior to this rule change, All-or-None Orders were available to Public Customers and Professionals.

Order Book would continue to allow Public Customers the opportunity to obtain fills for their orders when the market moves even if the All-Or-None Order was not immediately executable upon entry. The Exchange notes since the 2019 rule change, the All-or-None Order was amended so that it would no longer rest on the order book, rather the order type would be executed in its entirety, or it will cancel if it cannot execute. The Exchange notes that with the change to an immediate-or-cancel order there is no longer a need to permit the All-or-None Orders to be limited to Public Customers. At this time, the Exchange also proposes to reflect in Phlx Options 2, Section 6 the ability of Market Makers to also trade All-or-None Orders. The Exchange notes that Directed Orders are orders directed to a Market Maker by an Order Flow Provider. An order becomes a Directed Order when it interacts with a Market Maker quote that is at the NBBO at the time of receipt of the Directed Order. The Exchange believes it is misleading to include a Directed Order in this list because a Directed Order may be executed by a Market Maker.

Today, Market Makers execute certain orders directed to them pursuant to Phlx Options 2, Section 10, provided they were quoting at the NBBO at the time the order arrived. Upon execution, these orders are treated as Directed Orders pursuant to Phlx rules. A two-sided order with a Public Customer on both sides may by its own terms only be entered by a Public Customer. That restriction remains in the rules. The Exchange notes that there is no reason to restrict Market Makers in entering order types, except for the restriction related to Reserve Orders, in options classes in which they are appointed and non-appointed. Unlike other order types, the Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. The Exchange believes that because a Reserve Order contains a non-displayed portion, Market Makers should not be permitted to enter this order type. Market Makers are required to make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange's System in all series of options classes to which the market maker is appointed. The Exchange believes that markets should be transparent.

Market Makers continue to be obligated to add liquidity on the Exchange. Options 2, Section 6(b) restricts the number of contracts that a Market Maker may enter in an options class to which the Market Maker is not appointed. Options 2, Section 5 requires Market Makers to abide by certain quoting requirements, in the options classes in which they are appointed, in order to maintain the status of a Market Maker. The Exchange believes that permitting a Market Maker to enter additional eligible order types, except Reserve Orders, in their appointed options class will permit Market Makers additional latitude to conduct business on the Exchange and effectively compete with other market makers on other options exchanges. Quotes and orders entered by a Market Maker may not interact against quotes and orders entered on the opposite side of the market by the same Market Maker.

Options 3, Section 4

Phlx's proposal to amend Options 3, Section 4(b)(6) to permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote is consistent with the Act. This proposal would continue to protect investors and the public interest because the functionality would prevent a quote from locking and crossing an away market while also providing member organization with more flexibility in handling their quotes.

Options 3, Section 6

The Exchange's proposal to discontinue Quote Exhaust is consistent with the Act because, today, Phlx offers various risk protections in its System limit executions at far away prices. Phlx offers an Acceptable Trade Range protection at Options 3, Section 15(b)(1), an Anti-Internalization protection at Options 3, Section 15(c)(1), and an Automated Quotation Adjustments protection at Options 3, Section 15(b)(2). Phlx is also proposing additional risk protections with this proposal. Other Nasdaq affiliated exchanges do not offer Quote Exhaust. Once discontinued, the Exchange's quoting functionalities will abide by Phlx's Options 3, Section 4 rules governing the entry and display of orders and the allocation methodology in Phlx Options 3, Section 10.

The Exchange's proposal to adopt a new rule in Phlx Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 is consistent with the Act and will protect investors and the general public by stating in its rules the manner in which Phlx would comply with Rule 602 of Regulation NMS. Additionally, providing Phlx with the ability to act in the case of unusual market conditions to maintain fair and orderly markets is consistent with the Act and would allow Phlx to manage trading in the same manner as ISE, GEMX and MRX in the event of unusual market conditions.

Options 3, Section 7

The Exchange believes that the proposed changes to the rules governing

Exchange order types are consistent with the Act. As discussed above, the proposed changes consist of several functional enhancements to align the Exchange's order types to existing ISE, GEMX and MRX order types, and rule adjustments that add more specificity and clarity to existing order types.

Market Orders

The Exchange believes that the proposed changes to the definition of Market Orders in proposed Options 3, Section 7(a) are consistent with the Act. The proposed intra-day cancel timer feature mirrors existing ISE, GEMX and MRX functionality at Options 3, Section 7(a)(5), and would provide member organizations with additional flexibility and control to bring the Market Order back to the member organization so they can get an execution on another venue by canceling unexecuted Market Orders after a certain period of time. The Exchange believes it is appropriate to offer this feature intra-day because the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process as discussed above.

In addition to the amendments to the definition of Market Orders, the Exchange proposes to permit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter Market Orders similar to all other market participants on Phlx. The Exchange's proposal to no longer restrict Lead Market Makers, Market Makers, and Off-Floor Broker Dealers from transacting Market Orders on Phlx is consistent with the Act because it would permit all market participants on the Exchange to enter Market Orders. Today, ISE, GEMX and MRX do not prohibit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers from entering Market Orders and those markets have not observed any adverse consequences. Also, current Phlx Options 2, Section 6 restricts the number of contracts that a Market Maker (or Lead Market Maker) may enter in a quarter,[132] thereby preventing Market Makers from entering an unlimited quantity of orders. The Exchange does not believe there is any reason to restrict Lead Market Makers, Market Makers, or Off-Floor Broker Dealers from entering Market Orders.

Limit Orders

The Exchange's proposal to relocate "Limit Orders" from current Options 3, Section 7(b)(2) to proposed Options 3, Section 7(b) without change. The Exchange also proposes to break out Limit Order further to define a Marketable Limit Order at proposed Options 3, Section 7(b)(1) as a Limit Order to buy (sell) at or above (below) the best offer (bid) on the Exchange. Finally, the Exchange proposes to define a Fill-or-Kill Order at proposed Options 3, Section 7(b)(2) as a Limit Order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled. This proposed new rule text aligns this Phlx order type to ISE, GEMX and MRX Options 3, Section 7(b)(2) and will provide Phlx member organizations the same ability to send this type of IOC order as ISE, GEMX and MRX Members.

Intermarket Sweep Orders

The Exchange's proposal to relocate an Intermarket Sweep Order from current Options 3, Section 7(b)(3) to proposed Options 3, Section 7(b)(3) with some additions is consistent with the Act. The Exchange proposes to reorder some sentences to closely resemble ISE, GEMX and MRX Options 3, Section 7(b)(3). The Exchange proposes to add an additional sentence to make clear that ISOs must have a TIF designation of IOC.

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[132] Pursuant to Phlx Options 2, Section 6, the total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

Additionally, the Exchange proposes to define the "regular order book" as the "single-leg order book." The Exchange believes that its proposal will promote transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges. Furthermore, the proposed changes do not amend current ISO functionality except for the proposed stipulation that ISOs must have a TIF designation of IOC. Today, Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires on the day it is entered. The Exchange believes it is appropriate to no longer allow non-IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. This is also consistent with how ISE, GEMX and MRX currently handle ISOs in that they only allow ISOs to be entered as IOC.

All-or-None Orders

The Exchange's proposal to relocate and amend the All-or-None Orders from current Options 3, Section 7(b)(5) to proposed Options 3, Section 7(c) is consistent with the Act. Today, Phlx restricts All-or-None Orders to be entered only by Public Customers. At this time, the Exchange proposes to permit any member or member organization to submit an All-or-None Order similar to ISE, GEMX, and MRX Options 3, Section 7(c). The Exchange believes that allowing all member organizations to utilize an All-or-None Order removes impediments to and perfects the mechanism of a free and open market and a national market system. Similar to ISE, GEMX and MRX, the Exchange proposes to modify All-or-None Orders so that they would execute against multiple, aggregated orders if the executions would occur simultaneously. The proposed description of the handling of All-or-None Orders is consistent with the Exchange's allocation methodology in Options 3, Section 10 by making clear that because of the size contingency of the All-or-None Order (i.e., executed in its entirety or not at all), those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Finally, the proposed changes to add that AON Orders may not be submitted during the Opening Process will better articulate current System behavior, and aligns to the level of detail currently in ISE, MRX, and GEMX Options 3, Section 7(c).

Stop and Stop Limit Orders

The Exchange believes that the proposed changes to the definition of Stop Orders and Stop Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent with the Act. Today, Phlx's Stop Order may be a Limit or Market Order. Also, the Stop Order may not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. At this time, the Exchange proposes to amend its Stop Order to mirror the order type that is in use on ISE, GEMX and MRX at Options 3, Section 7(d) and (e). Phlx will permit all member organizations to utilize a Stop Order and Stop Limit Order and not restrict Lead Market Makers, Maker Makers, and Off-Floor Broker-Dealers from using the order type which removes impediments to and perfects the mechanism of a free and open market and a national market system. Also, the Exchange will not separately specify a Stop Market Limit Order, rather it will describe an elected Stop Order as a Market Order. Therefore, the

Exchange will describe a Stop Order and Stop Limit Order. Aligning Phlx's current functionality for a Stop Order and Stop Market Order to that of ISE, GEMX and MRX will create consistent rules and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest.

Cancel and Replace Orders

The Exchange's proposal to relocate the Cancel and Replace Order description from Options 3, Section 7(b)(7) to proposed Options 3, Section 7(f) and mirror the functionality on ISE, GEMX and MRX at Options 3, Section 7(f). Aligning Phlx's current functionality for a Cancel and Replace Order to that of ISE, GEMX and MRX will create consistent rules and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest.

Reserve Orders

The Exchange's proposal to adopt a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g) is consistent with the Act as it will align Phlx's current functionality for a Reserve Order to that of ISE, GEMX and MRX will create consistent rules and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. Both the displayed and non-displayed portions of a Reserve Order would be available for potential execution against incoming marketable orders. A non-marketable Reserve Order would rest on the order book. The displayed portion of a Reserve Order would be ranked at the specified limit price and the time of order entry. This new order type will be available to all member organizations, except Market Makers as noted herein. The proposed rule change will promote competition as Reserve Orders will provide member organizations with additional flexibility to manage and display their orders and additional control over their executions on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors.

Attributable Orders

The Exchange's proposal to adopt Attributable Orders at Options 3, Section 7(h) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(h) is consistent with the Act. An Attributable Order would be a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. This new order type will be available to all member organizations and the proposed rule change will promote competition, as Attributable Orders will provide member organizations with additional flexibility to manage their orders on the Exchange. This new order type may encourage market participants to bring additional liquidity to the market, which benefits all investors.

Directed Orders

The Exchange proposes to relocate the reference to Directed Orders currently in Options 3, Section 7(b)(11) to Options 3, Section 7(l) without change aligns the Phlx order type to ISE, GEMX and MRX Options 3, Section 7(l).

Add Liquidity Orders

The Exchange's proposal to adopt ALOs at Options 3, Section 7(n) that are identical to ISE, GEMX and MRX Options 3, Section 7(n) is consistent with the Act. ALOs are limit orders that will only be executed as a "maker" on the Exchange. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. The ALO order type would provide market participants greater control over the circumstances in which their orders are executed. The purpose of an ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange believes that ALOs will accommodate this strategy. This new order type will be available to all member organizations. This new order type may encourage market participants to bring additional liquidity to the market, which benefits all investors.

PIXL Order

The Exchange's proposal to relocate the description of a PIXL Order from Options 3, Section 7(b)(9) to Options 3, Section 7(y) without change aligns the Phlx order type to ISE, GEMX and MRX Options 3, Section 7(y).

Day Order

The Exchange's proposal to relocate Day Order from current Options 3, Section 7(c)(1) to Supplementary Material .02(a) to Options 3, Section 7 with minor amendments is consistent with the Act. The Exchange is rewording the rule text of Day Order to mirror the text in ISE, GEMX and MRX Supplementary Material .02(a) to Options 3, Section 7.

Good-Till-Cancelled

The Exchange's proposal to relocate Good Till Cancelled from Options 3, Section 7(c)(4) to Supplementary Material .02(b) to Options 3, Section 7 and amend the description is consistent with the Act. The Exchange's proposal to provide that a Good-Till-Canceled Order is an order to buy or sell entered with a TIF of "GTC" and remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract would address a corporate event, noting that GTC orders are canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. This rule text clarifies the current System behavior. The proposed GTC description is identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(b) to Options 3, Section 7. There is no System change as a result of the change to the description of the GTC order.

Good-Till-Date

The Exchange's proposal to adopt a new TIF designation, Good-Till-Date Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7 is consistent with the Act. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of "GTD," which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX. The Exchange believes this additional TIF will provide member organizations with additional opportunities when trading on Phlx.

Immediate-or-Cancel

The Exchange's proposal to relocate Immediate-or-Cancel from Options 3, Section 7(c)(2) to Supplementary Material .02(d) to Options 3, Section 7 and amend the description is consistent with the Act. These modifications are non-substantive and simply bring more clarity to the text. These changes align with rule text in ISE, GEMX and MRX, as applicable.

Opening Only

The Exchange's proposal to relocate Opening Only from Options 3, Section 7(c)(3) to proposed Supplementary Material .02(e) of Options 3, Section 7 is consistent with the Act. Opening Only Orders would be subject to the Size Limitation and Market Wide Risk Protections thereby protecting investors and the general public. Of note, the Market Wide Risk Protection is a new protection being adopted by this proposal.

Order Entry Protocols

The Exchange's proposal to amend the rule text currently in Supplementary Material .03(a) of Options 3, Section 7 is consistent with the Act. The addition of post trade allocation messages to the list of features that will be included in FIX will enhance that feature at no cost. Today, ISE, GEMX and MRX provides for post trade allocation messages through FIX.[133]

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[133] See Supplementary Material .03(a) of Options 3, Section 7.

Routing

The Exchange's proposal to relocate the rule text at Options 3, Section 7(d) to Supplementary Material .04 of Options 3, Section 7 without change is a non-substantive amendment.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, at Options 3, Section 8(b) to note the eligible interest that will be included in the Opening Process, is consistent with the Act. The Exchange proposes to note that "Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps, and orders, *including Opening Only Orders, but excluding orders with a Time-In-Force of "Immediate or Cancel" and Add Liquidity Orders*. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. *The displayed and non-displayed portions of the Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process.* Non-SQT Market Makers may submit orders." The Exchange notes that today, Opening Only Orders are eligible for the Opening Process but not Immediate or Cancel Orders. With the addition of the Add Liquidity Orders and the Reserve Orders, the Exchange is proposing to note how those order types are accepted by the System for the Opening Process. The proposed eligibility of these orders mirror ISE, GEMX and MRX Options 3, Section 8(b). Also, similar to ISE, GEMX and MRX Options 3, Section 8(g), the Exchange proposes to account for the addition of Reserve Orders with respect to the Potential Opening Price[134] in Phlx Options

[134] The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

3, Section 8(h). The Exchange notes that to calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps *and displayed and non-displayed portions of Reserve Orders*) for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). The Exchange believes that the addition of this rule text will make clear the manner in which the System will handle a Reserve Order during the Opening Process.

The Exchange's proposal to amend Options 3, Section 8(h)(A), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price is consistent with the Act. Today, Section 8(h)(A) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. The Exchange now proposes to no longer round in the direction of the previous trading day's closing price and simply round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. The proposed changes are intended to simplify and bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series.

Amending Options 3, Section 8(j)(7), which currently describes the determination of Opening Quote Range ("OQR") boundaries, in certain scenarios is consistent with the Act. Specifically, the Exchange proposes to amend the last sentence of Options 3, Section 8(j)(7) which currently states, "The System will route routable Public Customer and Professional interest pursuant to Options 3, Section 10(a)(1)(A)." The Exchange proposes to remove the current limitation that only allows routable Public Customer and Professional interest to route during the Opening Process thereby permitting all market participants to route and removes the impediments to and perfects the mechanism of a free and open market and a national market system. All routable market participant interest will be allowed to route to align the Exchange's opening functionality with ISE, GEMX and MRX which does not limit orders that may route in the Opening Process within Options 3, Section 8. The Exchange will also update the cross-cite to Options 3, Section 10(a)(1)(A), currently pointing to the Public Customer priority overlay, to the more general priority rule in Options 3, Section 10(a).

Similar to other changes noted herein, the Exchange proposes to amend Options 3, Section 8(k)(C)(6) to note how Reserve Orders will be handled in the Opening Process for purposes of execution. This rule text will add transparency to Phlx's rule text similar to ISE, GEMX and MRX Options 3, Section 8(j)(6). Additionally, the Exchange proposes an amendment to the last sentence of Options 3, Section 8(k)(C)(6) which currently states, "The System will only route non-contingency Public Customer and Professional orders." In line with proposed amendments to permit the System to route all market participant interest, thereby removing the limitation that only allows routable Public Customer and Professional interest to route, and in line with the addition of rule text related to the handling of Reserve Orders.

The Exchange proposes to amend Options 3, Section 8(k)(D) to mirror rule text in Options 3, Section 8(j)(6)(i) which states, "The System will cancel any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening." Today, the System will cancel any order or quote priced through the Opening Price on Phlx. Also, today, all other interest will be eligible for trading after the Opening Process and will remain on the order book. The Exchange believes that this rule text will bring greater transparency to Phlx's Opening Process.

Finally, the Exchange proposes to amend rule text in the Opening Process Cancel Timer in Options 3, Section 8(l). With the adoption of the Good-Til-Cancel Order and Good-Till-Date Order, the Exchange proposes to rename the order types in the last sentence of Options 3, Section 8(l) for consistency.

Options 3, Section 9

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, at (d)(3) to amend the manner in which a Stop Order will be treated during a trading halt is consistent with the Act. The Exchange proposes to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3). Today, after the opening, the Exchange will elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify member organizations of the reason for such cancellation. The Exchange proposes to note that Stop Orders become elected as provided for in proposed Options 3, Section 7(d).[135] The Exchange

[135] As proposed in Phlx Options 3, Section 7(d) a Stop Order becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

currently cites to Options 8, Section 32 erroneously, as those rules refer to Stop Orders on the trading floor. The Exchange proposes to instead cite proposed new Options 3, Section 7(d) which describes electronic Stop Orders. The Exchange also proposes to note that the System cancels orders. Also, the Exchange proposes to change the word rejection to cancellation because the order would be cancelled not rejected. These proposed changes are intended to bring greater clarity to the Exchange's rules.

Options 3, Section 10

The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, is consistent with the Act. Phlx proposes to amend its rounding methodologies to round up to the nearest integer throughout the Rule. The Exchange is opting to round up and not down, uniformly, and disclose that rounding methodology directly within Options 3, Section 10, so that all member organizations are aware of the rounding methodology that would be utilized by the System. In addition, if the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because it is rounding up, the provisions which describe allocations for remainders of less than one contract cannot occur and therefore this rule text is being removed, as such remainders would not be mathematically possible. The Exchange believes that rounding up uniformly is consistent with the Act because it provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. The Exchange proposes to amend Options 3, Section 10(a)(1)(B) to change a reference to "DROT" to "Directed Market Maker" for consistency.

The Exchange proposes to amend Options 3, Section 10(a)(1)(C) to provide that "After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Options 2, Section 10, provided the Directed Market Maker's quote is at the better of the internal PBBO or the NBBO, the Directed Market Maker will be afforded a participation entitlement. This participation entitlement will be considered after the Opening Process." Today, a Directed Market Maker's quote or market maker order must be at the better of the internal PBBO or NBBO. The Exchange believes that similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(C), that market maker orders should not be considered when offering Directed Market Maker Priority. The Exchange proposes to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order. Consistent with this change, the Exchange proposes to remove "or order(s)" after quote throughout Options 3, Section 10(a)(1)(C). Only offering a Directed Market Maker an enhanced allocation on quotes is consistent with the obligations of a Directed Market Maker, to be quoting at the better of the internal PBBO or the NBBO at the time of receipt of the Directed Order.[136]

The Exchange's proposal to amend the Entitlement for Orders of 5 contracts or fewer to align with ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) is consistent

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136 See Phlx Options 2, Section 10.

with the Act. The Exchange proposes to amend the last sentence to provide, "On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over 40%." Today, the percentage is 25%. Phlx notes that currently Lead Market Makers are not approaching the 25% threshold noted in Options 3, Section 10(a)(1)(D)(ii) related to the quarterly review of 5 contracts or fewer by the Exchange, which percentage is based on total volume executed. With this proposal, Phlx will monitor the frequency in which Lead Market Makers receive orders for 5 contracts or fewer. Specifically, the Exchange will review the proposed provision quarterly and will maintain the orders for 5 contracts or fewer at a level that will not allow these small size orders executed by Lead Market Makers to account for more than 40% of the volume executed on the Exchange. The Exchange does not believe the proposal raises any new or novel issues as other options exchanges also offer the same allocation for orders for 5 contracts or fewer.[137] The Exchange believes that providing this benefit offers Lead Market Makers an incentive for vigorous quoting since a Lead Market Maker must be quoting at the NBBO in order to receive the allocation. Incentivizing Lead Market Makers to provide liquidity on Phlx, in turn, provides greater opportunity for executions, tighter spreads, and better pricing for all member organizations. While the Commission has, in the past, been concerned about locking up larger portions of order flow from intra-market price competition, the Exchange believes that the enhancement would remain adequately balanced by the increased 40% threshold that limits the volume of orders of

[137] See ISE, GEMX and MRX Options 3, Section 10(a)(1)(D).

five contracts or fewer that are executed by Lead Market Makers to account for no more than 40% of the volume executed on the Exchange. The proposed increased limitation of 40% continues to strike a reasonable balance between encouraging vigorous price competition by Lead Market Makers and rewarding those Lead Market Makers for their unique duties. Lead Market Maker are also subject to the heightened quoting requirements specified in Options 2, Section 5(c)(2)(B). Finally, changing the percentage from 25% to 40% will align Phlx with ISE, GEMX and MRX and permit market makers to have the same compliance across the Nasdaq exchanges.[138]

Similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(E), the Exchange proposes to account for Reserve Orders in proposed Options 3, Section 7(g)(3). The Exchange proposes to cite to proposed Section 7(g)(3) which provides that the displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders and this subparagraph (F) for non-Public Customer Orders. The Exchange also proposes to add a citation to 10(a) in this paragraph for clarity.

<u>Options 3, Section 15</u>

Order Price Protection

The Exchange's proposal to amend its Order Price Protection or "OPP" (also known as the fat finger check) in Options 3, Section 15(a)(1) to align certain features with the OPP functionality currently offered by its affiliates, NOM and BX, is consistent with the Act. The Exchange believes that the proposed changes to OPP to introduce an alternative threshold that uses a configurable dollar amount, as discussed above, will allow Phlx to establish appropriate boundaries for rejecting potentially erroneous orders

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138 BX also utilizes 40%. <u>See</u> Options 3, Sections 10(a)(1)(C)(1)(c) and 10(a)(2)(iii).

while continuing to allow member organizations to access liquidity. As discussed above, OPP is intended to prevent orders entered at clearly unintended prices from executing in the System to the detriment of market participants. OPP was not intended to reject legitimate orders which are otherwise capable of executing at a fair price. The Exchange's proposal will establish a fixed dollar amount as an alternative threshold in addition to the current percentage-based threshold, similar to NOM and BX Options 3, Section 15(a)(1). The Exchange believes its proposal will continue to protect investors and the public interest against erroneous executions while also allowing orders, including lower-priced orders, to execute where appropriate.

The Exchange believes that its proposal is consistent with the Act because the fixed amount provides for a larger range of executions that would otherwise be rejected by the application of a percentage which would not capture the potential incremental executions. As illustrated above, orders could be rejected that were intentional and not erroneous. Similar to NOM and BX, the Exchange believes that the proposed approach will accomplish the goal of limiting erroneous executions while permitting intentional executions at reasonable prices.

The Exchange also believes that its proposal to add rule text relating to Exchange discretion to temporarily deactivate OPP on an intra-day basis is consistent with the Act. As noted above, NOM and BX have identical language in Options 3, Section 15(a)(1)(A), and similar to NOM and BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like NOM and BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and orderly market. This will promote just and equitable principles of trade and ultimately protect investors.

Lastly, the Exchange's proposal to amend Options 3, Section 15(a)(1) to remove the current exclusion of ISOs and Complex Orders from the OPP rule is consistent with the Act. The proposed changes to remove the exclusion of ISOs so that OPP would apply to them going forward is consistent with the Act as this will promote the goal of limiting erroneous executions on the Exchange and in general, extend more protections to ISOs. As discussed above, the Exchange believes this is appropriate given that the proposed alternative threshold will permit more lower-priced ISOs to execute at reasonable prices. Finally, the Exchange is removing Complex Orders as the simple risk protections do not apply to Complex Orders, rather the Complex Order risk protections in Options 3, Section 16 would apply.

Market Wide Risk Protection

The Exchange believes that the proposed rule change to adopt MWRP would assist with the maintenance of a fair and orderly market by establishing new activity based risk protections for orders. The proposed MWRP is similar to risk management functionality provided in ISE, GEMX and MRX Options 3, Section 15(a)(1)(C). Similar to ISE, GEMX and MRX, the Exchange believes that the proposed rule change may reduce member organization risk by allowing them to effectively manage their exposure to excessive risk. In particular, the proposed rule change would implement two new risk protections based on the rate of order entry and order execution, respectively. The

Exchange believes that both of these new protections, which together encompass the proposed MWRP, would enable member organizations to better manage their risk when trading options on the Exchange by limiting the member organization's risk exposure when systems or other issues result in orders being entered or executed at a rate that exceeds predefined thresholds. In today's market, the Exchange believes that robust risk management is becoming increasingly more important for all member organizations. The proposed rule change would provide an additional layer of risk protection for market participants that trade on the Exchange.

In particular, the MWRP is designed to reduce risk associated with system errors or market events that may cause member organizations 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, member organizations could reduce the amount of order flow and liquidity that they provide. Such actions may undermine the quality of the markets available to customers and other market participants. Accordingly, the proposed functionality is designed to encourage member organizations to submit additional order flow and liquidity to the Exchange, thereby removing impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

Anti-Internalization

The Exchange believes that the proposed rule change to enhance AIQ is consistent with the protection of investors and the public interest as it is designed to provide Market Makers with additional flexibility with respect to how to implement self-trade protections provided by AIQ. Currently, all Market Makers are provided functionality that prevents quotes and orders from one market participant identifier from trading with quotes and orders from the same market participant identifier. This allows Market Makers to better manage their order flow and prevent undesirable executions where the Market Maker, using the same market participant identifier, would be on both sides of the trade. While this functionality is helpful to member organizations, some member organizations may prefer not to trade with quotes and orders entered by different market participant identifiers within the same Exchange account or member organization firm. The Exchange is therefore proposing to provide member organizations with flexibility with respect to how AIQ is implemented. As such, member organizations can continue to use current functionality, or member organizations that prefer to prevent self-trades across different market participant identifiers within the same Exchange account or at the member organizations firm level will now be provided with the means to do so under this proposal. Similar flexibility is offered on ISE, GEMX and MRX.[139] Similar to ISE, GEMX and MRX, the Exchange believes that flexibility to apply AIQ at the Exchange account or member organization firm level would be useful for the Exchange's member organizations as well. The Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade and will remove impediments to and perfect the mechanisms of a free and open market as it will further enhance self-trade protections provided to Market Makers similar to those protections provided on other markets.

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[139] See ISE Options 3, Section 15(a)(3)(A). See also NOM and BX Options 3, Section 15(c)(1), which provide similar flexibility.

Quotation Adjustments

The Exchange believes that the proposed rule change is consistent with the Act because it will enhance the risk protection tools available to Market Makers by introducing new Delta and Vega Thresholds that will be offered in conjunction with the current Percentage and Volume Thresholds, thereby strengthening a Market Maker's ability to manage their risk on the Exchange. The proposed thresholds are functionally identical to the Delta and Vega Thresholds provided in ISE, GEMX and MRX Options 3, Section 15(a)(3)(B). Similar to ISE, GEMX and MRX, the Exchange believes that the proposed rule change may reduce Market Maker risk by allowing them to effectively manage their exposure to excessive risk. Accordingly, the Exchange believes that the proposal removes impediments to, and perfects the mechanism of, a free and open market and a national market system, and protects investors and the public interest.

The proposed changes to amend when Rapid Fire and Multi-Trigger will be triggered and the modification to the Specified Time Periods, as discussed above, will bring greater harmonization between the Exchange's rules and ISE's, GEMX's and MRX's rules. Amending the current Rapid Fire functionality to no longer remove IOC Orders submitted through SQF, identical to ISE, GEMX, MRX and BX, is consistent with the Act as Market Makers quote to provide liquidity on the Exchange and the risk protection is intended to provide a protection to those participants when acting as liquidity providers. Market Makers utilizing IOC Orders may also provide liquidity but to a lesser extent. The Exchange believes that limiting the risk protection to quotes, similar to other Nasdaq affiliated markets, continues to protect investors while not also purging IOC orders which may interact against other interest on the Exchange. With the proposed changes, Phlx's Rapid Fire and Multi-Trigger will be triggered when their respective thresholds are exceeded (instead of when they are met or exceeded, as is currently the case) and the Specified Time Periods will be amended from 15 to 30 seconds, all of which will be substantially similar to ISE's, GEMX's and MRX's current approach. The Exchange believes that having more consistent rules will result in greater uniformity as well as less burdensome and more efficient regulatory compliance. In addition, offering more consistent functionality across Phlx, ISE, GEMX and MRX will contribute to less complexity and reduce potential confusion for market participants on Phlx that are also participants on ISE, GEMX and MRX. As such, the Exchange believes that the proposed changes would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

Active Quote Protection

The Exchange believes that the proposed Active Quote Protection risk protection is consistent with the Act because it will enhance the risk protection tools available to Market Makers and Groups by introducing a new method of establishing and monitoring for risk parameters that will be offered as an alternative to existing Rapid Fire risk parameters, thereby supporting a Market Maker's ability to manage their risk on the Exchange, and also providing them with flexibility to use additional tools to manage risk. As noted above, while the passive (Rapid Fire) and active (Active QP) risk counter functionality will be mutually exclusive on each badge, Market Makers will still be able to use both to cover their activity on the Exchange by getting multiple badges and setting each risk counter by badge. The Exchange believes that offering more risk management tools to Market Makers would mitigate their exposure to excessive risk. The Exchange further believes that having the new Active Quote Protection functionality leverage the existing Multi-Trigger functionality will similarly support a Market Maker's ability to manage their risk on the Exchange by including Active Quote Protection purge events to the Multi-Trigger counter. As noted above, the risk to Market Makers is not limited to a single series in an option or even multiple series in an option as Market Makers that quote in multiple series of multiple options have significant exposure, requiring them to offset or hedge their overall positions. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. Today, Multi-Trigger is designed to assist Market Makers or a Group in managing their market risk by tracking the number of Purge Events relative to the market-wide parameter set by the Market Maker or the Group. The Exchange therefore believes that tracking the number of Active Quote Protection purge events for a Market Maker against its Multi-Trigger Threshold would be similarly useful for managing market risk so that they can provide deep and liquid markets to the benefit of all investors. Ultimately, the Exchange believes that providing Market Makers with additional tools in the manner described above to manage their risk parameters serves to perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest because Market Makers will be better able to manage risks with these tools.

The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of

Regulation NMS. Specifically, any marketable interest that is executable against a Market Maker's quotes that are received[140] by the Exchange prior to the time this functionality is triggered will be automatically executed at the price up to the Market Maker's size, regardless of whether such execution results in executions in excess of the Market Maker's pre-set Contract Limit.[141] As discussed above, this is also in line with how current Rapid Fire operates today. The Exchange believes that the proposed changes in proposed sub-paragraph (D)(ii) to specify that this Rule will apply to marketable orders and quotes (currently silent on marketable orders), and to specify the time of receipt of such marketable interest that is executable against the size of the Market Maker's quote, will promote clarity in how the System currently operates for Rapid Fire and will operate for Active Quote Protection. As noted above, the proposed Active Quote Protection functionality is similar to existing active risk counter functionality on ISE, GEMX and MRX Options 3, Section 15(c)(2)(B).

Post-Only Quoting Protection

The Exchange's proposal to amend Options 3, Section 15, Risk Protections, to codify new paragraph (c)(3) to permit Phlx Market Makers to prevent their quotes from removing liquidity from the Exchange's order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to Phlx Market Makers. The proposal also promotes the policy goals of the Commission which has encouraged execution venues, exchanges, and non-exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase

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140 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

141 See proposed subparagraph (D)(ii) of Phlx Options 3, Section 15(c)(2).

stability. While Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the Phlx order book upon entry, there are also downstream benefits to market participants. Additionally, the benefits of enhanced risk protections flow downstream to counterparties both within and away from the Exchange, thereby increasing systemic protections as well.

The proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange’s order book if their quote would otherwise lock or cross any resting order or quote on Phlx’s order book upon entry, thereby protecting investors and the general public as Phlx Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers would utilize the proposed risk protection to avoid unexpectedly taking liquidity off of the order book. As a result of taking liquidity, Market Makers would incur a taker fee that may impact the Market Maker's ability to provide liquidity and meet quoting obligations. Phlx Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing and enhanced allocations. Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to Phlx by allowing Market Makers to provide as much liquidity as possible, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system and protecting investors and the public interest. There is no impact to other market participants by introducing this Post-Only Quote Configuration as other non-Market Makers may utilize the proposed Add Liquidity Only order type that will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with interest on Phlx's order book and thereby interact with order flow that is priced better than the NBBO. Also, other market participants may interact with the liquidity provided by Market Makers.

Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis[142] and are subject to various obligations associated with providing liquidity on the market.[143] Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Phlx Options 3, Section 15 to allow them to manage their risk more effectively. The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on the Exchange and protects investors and the public interest, thereby enhancing market structure by allowing Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. Also, an increase in the activity of Market Makers in turn facilitates tighter spreads.

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142 See Phlx Options 2, Section 5.

143 See Phlx Options 2, Section 4.

Options 3, Section 23

The Exchange's proposal to amend Phlx Options 3, Section 23, Data Feeds and Trade Information, is consistent with the Act. Amending the name of various market data feeds in Phlx Options 3, Section 23(a) is a non-substantive amendment that will harmonize the names of the feeds to ISE, GEMX and MRX Options 3 Section 23(a).

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from member organizations.[144] As noted above, member organizations use FIX and CTI to obtain order information currently available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

Further, the Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 9B in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any member organization. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. Additionally, it is equitable and not unfairly discriminatory to remove the references to TradeInfo pricing from the

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144 As noted above, the Exchange will provide prior notice of the decommission to all member organizations through an Options Trader Alert.

Pricing Schedule because no member organization would be able to utilize this functionality once it is removed from the System.

Options 3, Section 28

The Exchange believes that introducing the optional risk protections as described above will protect investors and the public interest, and maintain fair and orderly markets, by providing market participants with another tool to manage their order risk. In addition, providing member organizations with more tools for managing risk will facilitate transactions in securities because member organizations will have more confidence that risk protections are in place. As a result, the new functionality has the potential to promote just and equitable principles of trade. ISE, GEMX and MRX offer identical optional risk protections at Options 3, Section 28.

Options 5, Section 4

The Exchange's proposal to amend Options 5, Section 4, Order Routing, to align Phlx's routing to ISE Options 4, Section 5 is consistent with the Act. The Exchange's proposal to align its rules with ISE will provide Phlx member organizations the same flexibility for routing orders that is afforded to ISE Members today.

With respect to FIND and SRCH, the Exchange is adding more detail to its routing rule to provide market participants with greater transparency. The Exchange believes the added scenarios will provide more context to routing in general and for the specific routing strategies for the benefit of investors and the public interest. The Exchange continues to offer various choices to its market participants with respect to routing. A member organization may elect either (1) to not route their orders and mark those orders "DNR"; or (2) to route their orders. If a member organization elects to route their orders, then a member organization may select to mark their orders as "FIND" or "SRCH" Orders, as proposed herein. Once booked, a FIND Order that is not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day*, even in the event that there is a new Opening Price after a trading halt*.

The FIND Order would route once and then post to the Order Book. A SRCH Order may route during and after an Opening Process. A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market. With respect to the addition of FIND Orders, the Exchange proposes various scenarios related to FIND Orders to account for various routing scenarios, as is the case today with respect to SEEK Orders. Various scenarios are also proposed to explain System functionality in locked and crossed markets and organized in such a manner to make the rule text efficient and organized. The Exchange also accounts for scenarios both during and after the Opening Process. The Exchange notes that it is consistent with the Act to account for the behavior of FIND Orders with respect to locked and crossed markets. The Exchange will not trade-through an away market's price. This behavior is consistent with the protection of investors and the general public because it affords member organizations the ability to obtain the best price offered among the various options markets.

The Exchange's proposal to amend Options 5, Section 4(a) to include Stop-Limit Orders in addition to Stop Orders in the list of order types that are not included in the PBBO because they have not been triggered is consistent with the Act as the Exchange's proposal adopts the Stop Order at ISE Options 3, Section 7(d) and Stop Limit Order at ISE Options 3, Section 7(e). The Exchange proposes to reflect both order types. As is the case today, the Exchange proposes to note, similar to ISE Options 4, Section 5(a) that when checking the order book, the System will seek to execute at the price at which it would send the order to an away market. The Exchange believes that this sentence will bring greater clarify to the Exchange's rule. Similarly, the Exchange proposes to add text to clarify its current System behavior for TIFs. Today, routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The Exchange also believes this sentence will clarify the current operation of the routing System. Finally, as is the case today, the Exchange proposes to note the time the routing System is available, the ability to list an order as non-routable and cross-reference the locked and crossed rules. The Exchange would state, "The order routing process shall be available to members from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Member organizations can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules." This proposed rule text merely provides greater transparency to the Exchange's current System operation and harmonizes Phlx's rule text to ISE Options 4, Section 5(a).

Options 6, Section 1

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, to align Phlx's process to that of ISE, GEMX and MRX Options 6, Section 1 by permitting electronic only members to systematically indicate a Give-Up at the time of trade, instead of in the post allocation process, is consistent with the Act as it will remove impediments to and perfect the mechanism of a free and open market and a national market system and align the process for electronic members to that of floor members while continuing to honor the Clearing Member's instruction. The Exchange's alignment of its process will continue to provide proper safeguards and protections for Clearing Members as well as controls for Clearing Members to restrict access to their OCC clearing numbers, allowing access only to those Authorized Members upon their request. The proposal will harmonize Phlx's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1.

Options 8, Section 32

The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that only a Public Customer can submit it is consistent with the Act. The Exchange proposes to remove this restriction so that any market participant may enter this order type. The Exchange believes that making these order types available to all market participants removes impediments to and perfects the mechanism of a free and open market and a national market system. The Exchange's proposal to add an OPG TIF as an available TIF for the trading floor will provide greater clarity to the Exchange's rules as this TIF is available on the trading floor and was erroneously omitted from the list of order types. Today, the TIF is available for floor participants. Any floor participant may enter the TIF of OPG on the trading floor. The remainder of the proposed changes are non-substantive numbering amendments.

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. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform. The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act.

Options 2, Section 6

The Exchange believes that this proposal does not impose an undue burden on inter-market competition because each options exchange generally determines permissible order types for market makers in its trading environment based on the exchange's individual business policy, objectives, and trading system.

The Exchange's proposal reflects its policy and objectives, and does not impose an undue burden on intra-market competition because it treats all Market Makers uniformly with respect to permissible order types. Market Makers, unlike other market participants, are required to abide by certain quoting requirements in the options classes in which they are appointed pursuant to Options 2, Section 5, in order to maintain the status of a Market Maker. The Exchange also notes that Options 2, Section 6(b) restricts the number of orders that a Market Maker may enter in an options class to which the Market Maker is not appointed. The Exchange believes that permitting a Market Maker to enter additional eligible order types, except Customer Cross Orders and Reserve Orders, in their appointed options class will permit Market Makers additional latitude to conduct business on Phlx and effectively compete with other market makers on other options exchanges.

<u>Options 3, Section 4</u>

Phlx's proposal to amend Options 3, Section 4(b)(6) to permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote does not impose an undue burden on inter-market competition because other options exchanges may offer similar functionality.

The proposal does not impose an undue burden on intra-market competition because all Market Makers may utilize the functionality when entering quotes into the System.

<u>Options 3, Section 6</u>

The Exchange's proposal to discontinue Quote Exhaust does not impose an inter-market burden on competition as other exchanges may determine to adopt or discontinue a similar functionality.

The Exchange's proposal to discontinue Quote Exhaust does not impose an intra-market burden on competition as no member organization would be subject to the Quote Exhaust functionality. Further, with respect to the interaction between the Quote Exhaust and risk protections, the proposal does not impose an intra-market burden on competition because instead of first being posted at the Quote Exhaust Reference Price, aggressively priced orders would be able to post to the order book immediately at the ATR Threshold, which would allow for quicker order execution while still providing order exposure and pauses between price bands, which continues to allow for risk mitigation. Once discontinued, the Exchange's quoting functionalities will abide by Phlx Options 3, Section 4 which governs the entry and display of orders and the allocation methodology in Options 3, Section 10. Finally, Phlx offers other risk protections to member organizations including an Acceptable Trade Range protection at Options 3, Section 15(b)(1), an Anti-Internalization protection at Options 3, Section 15(c)(1), and an Automated Quotation Adjustments protection at Options 3, Section 15(b)(2).

The Exchange's proposal to adopt a new rule in Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 does not impose an inter-market burden on competition as other exchanges may adopt a similar rule.

The Exchange's proposal to adopt a new rule in Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 does not impose an intra-market burden on competition as this rule will apply uniformly to all quotations entered on the Exchange.

Options 3, Section 7

The Exchange's proposal to amend Phlx's existing order types so that they are identical to order types available on ISE, GEMX and MRX Options 3, Section 7 and to adopt new order types such as a Fill-or-Kill Order, Reserve Order, and Attributable Order does not impose an inter-market burden on competition as other exchanges may determine to adopt similar order types.

The Exchange's proposal to amend Phlx's existing order types so that they are identical to order types available on ISE, GEMX and MRX Options 3, Section 7 and to adopt new order types such as a Fill-or-Kill Order, Reserve Order, and Attributable Order does not impose an intra-market burden because all market participants would be able to utilize all of the order types, except Market Makers with respect to Reserve Orders. The Exchange's proposal would permit Market Makers (and Lead Market Makers) to enter

Market Orders and Stop Orders. All non-Public Customers would be permitted to enter AON Orders and Off-Floor Broker Dealers would not be restricted from entering AON Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders. Restricting Market Makers (and Lead Market Makers) from entering Reserve Orders does not impose an intra-market burden on competition because Market Maker (and Lead Market Maker) liquidity should be displayed, and Reserve Orders have non-displayed portions of liquidity.

Finally, the Exchange would no longer classify a market participant as an Off-Floor Broker Dealer because it is eliminating that category.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, to make clarifying rule changes, add System detail concerning new order types, and adjust rounding does not impose an inter-market burden because other exchanges may adopt similar functionality. Today, ISE, GEMX and MRX Options 3, Section 8 contains similar functionality.

The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, to make clarifying rule changes, add System detail concerning new order types, and adjust rounding does not impose an intra-market burden because all market participants would be subject to the Opening Process. The Exchange is removing limitations to routing Public Customer and Professional interest from the Opening Process.

<u>Options 3, Section 9</u>

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3) and make other minor changes does not impose an inter-market burden because other exchanges may adopt similar functionality.

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3) and make other minor changes does not impose an intra-market burden because all market participants would be subject to the Trading Halts rule.

<u>Options 3, Section 10</u>

The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, to round up does not impose an inter-market burden because other exchanges may adopt similar rounding. The Exchange's proposal to amend Options 3, Section 10, to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order does not impose an inter-market burden because ISE, GEMX and MRX Options 3, Section 10(c)(1)(C) also allocate the Directed Market Maker enhancement in this manner. The Exchange's proposal to amend the Entitlement for Orders of 5 contracts or fewer to increase the percentage from 25% to 40% does not impose an inter-market burden on competition because ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) provides for the same percentage.

The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, to round up does not impose an intra-market burden because the Exchange is opting to round up and not down, uniformly and the proposed rounding methodology provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange's proposal to amend Options 3, Section 10, to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order does not impose an intra-market burden because the Directed Market Maker only has corresponding obligations related to quoting. The Exchange's proposal to amend the Entitlement for Orders of 5 contracts or fewer to increase the percentage from 25% to 40% does not impose an intra-market burden on competition because the Exchange will continue to evaluate all Market Makers in accordance with the proposed new obligation which is the same obligation that exists on other options exchanges today such as ISE, GEMX and MRX Options 3, Section 10(a)(1)(D). If Phlx were to continue to review its member organizations for compliance with the 25% threshold it would remain at a competitive disadvantage to other options markets that have a 40% threshold thereby making Phlx a less attractive venue for market making.

Options 3, Section 15

As it relates to inter-market competition, the Exchange notes that the basis for the majority of the proposed rule changes in this filing are aligning with the rules of BX, NOM, ISE, GEMX or MRX, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. As noted above, the proposed changes to the risk protections will provide more consistent technology offerings across the Nasdaq affiliated exchanges, and for this reason, the Exchange does not believe its proposal will impose an undue burden on intermarket competition. The

Exchange also notes that market participants on other exchanges are welcome to become participants on the Exchange if they determine if this proposed rule change has made Phlx a more attractive or favorable venue.

All of the proposed changes related to the risk protections (OPP, MWRP, Acceptable Trade Range, Anti-Internalization, Quotation Adjustments, Post-Only Quoting Protection and Active Quote Protection) do not impose an undue burden on intra-market competition as they are all aimed at mitigating market participant risk associated with trading on the Exchange. The proposed changes are designed to benefit market participants in that they will provide a more consistent technology offering for market participants on Nasdaq affiliated exchanges. The Exchange also notes that some of the proposed risk controls (e.g., Delta and Vega Thresholds and Post Only Quoting Protection) are completely voluntary. The Post-Only Quoting Protection proposal does not impose a burden on inter-market competition, because member organizations may choose to become market makers on a number of other options exchanges, which may have similar but not identical features. The Exchange does not believe that the proposed Active Quote Protection functionality will impose any undue burden on intra-market competition as it is aimed at mitigating exposure to excessive risk when trading on the Exchange. While the Exchange will offer the proposed functionality to Market Makers only, the proposed risk protection is intended to provide Market Makers with an additional tool to manage their risk parameters in a manner they deem appropriate. As such, the Exchange believes that the proposed functionality may facilitate Market Makers' provision of liquidity on the Exchange, thereby benefitting all market participants through additional execution opportunities at potentially improved prices.

Offering Market Makers the ability to configure their quotes as Post-Only will allow all market participants on Phlx to add liquidity only if desired. Further, the proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the order book upon entry, thereby protecting investors and the general public as Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing and enhanced allocations. Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to Phlx by allowing Market Makers to provide as much liquidity as possible. Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis[145] and are subject to various obligations associated with providing liquidity on the market.[146] Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.

Options 3, Section 23

As it relates to the elimination of fees for TradeInfo from Options 7, the Exchange believes that its proposal does not impose an undue burden on competition because TradeInfo would no longer be available to any Members. The Exchange notes that

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145 See Phlx Options 2, Section 5.

146 See Phlx Options 2, Section 4.

members can continue to receive similar information through CTI, which is available to all member organizations, and FIX can be used to cancel orders today, which is also available to all members.

Options 3, Section 28

The Exchange believes that introducing the optional quantity and notional value risk protections does not impose an undue burden on inter-market competition as the identical functionality exists on ISE, GEMX and MRX at Options 3, Section 28.

The Exchange believes that introducing the optional quantity and notional value risk protections does not impose an undue burden on intra-market competition as it will provide market participants with another tool to manage their order risk.

Options 5, Section 4

The Exchange's proposal to amend its routing rule, similar to ISE Options 5, Section 4, with respect to FIND Orders and SRCH Orders, does not impose an undue burden on inter-market competition because the Exchange will provide Phlx member organizations the same choices with respect to routing that is afforded to ISE members today.

The Exchange's proposal to amend its routing rule, similar to ISE Options 5, Section 4, with respect to FIND Orders and SRCH Orders does not impose an undue burden on intra-market competition because the proposed routing rules apply to all market participants including routing during an Opening Process. The Exchange believes that adding greater detail to its rules does not impose an undue burden on intra-market competition, rather it provides greater transparency as to the potential outcomes when utilizing different routing strategies. As is the case today, market participants may elect not to route their orders.

Options 6, Section 1

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not impose an undue burden on inter-market competition because other market today have the same Give-Up process.[147]

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not impose an undue burden on intra-market competition, rather it will permit both floor and electronic members to indicate a Give-Up at the time of trade. Today, electronic trading members indicate a Give-Up in the post allocation process. The proposal will create a uniform process for Give-Up for all member organizations and harmonize Phlx's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1.

Options 8, Section 32

The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that it can only be submitted by a Public Customer does not impose an undue burden on inter-market competition because other markets today offer the All-or-None Order to all market participants.[148]

The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that it can only be submitted by a Public Customer does not impose an undue burden on intra-market competition because all Phlx

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[147] See ISE, GEMX and MRX Options 6, Section 1.

[148] ISE, GEMX and MRX offer All-or-None Orders to all market participants. See ISE, GEMX and MRX Options 3, Section 7(c).

members will be able to utilize this order type. The Exchange's proposal to add an OPG TIF as an available TIF for the trading floor does not impose an undue burden on intra-market competition because all Phlx members will be able to utilize this TIF.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)[149] of the Act and Rule 19b-4(f)(6) thereunder[150] in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange's proposal does not significantly affect the protection of investors or the public interest. Permitting Market Makers (and Lead Market Makers) to enter all eligible order types, except Reserve Orders, in both appointed and non-appointed options classes does not significantly affect the protection of investors or the public interest. Today, ISE, GEMX and MRX Options 2, Section 6 only restricts Market Makers from

[149] 15 U.S.C. 78s(b)(3)(A)(iii).

[150] 17 CFR 240.19b-4(f)(6).

entering Reserve Orders. Permitting Market Makers (and Lead Market Makers) to enter Market Orders and Stop Orders similar to all other market participants on Phlx does not significantly affect the protection of investors or the public interest. Today, all market participants, including Market Makers and Lead Market Makers, may transact Market Orders and Stop Orders on other options markets.[151] Market Orders are designed to remove liquidity from the Order Book and Stop Orders are non-displayed order types until they are triggered, which does not benefit the role of a Market Makers in displaying liquidity on the Order Book. Permitting all market participants to enter All-or-None Orders does not significantly affect the protection of investors or the public interest. Since this order type does not rest on the order book and executes in its entirety, or it will cancel if it cannot execute, there is no longer a need to restrict the order type. Directed Orders are orders directed to a Market Maker by an Order Flow Provider. An order becomes a Directed Order when it interacts with a Market Maker quote that is at the NBBO at the time of receipt of the Directed Order. The Exchange believes it is misleading to include a Directed Order in this list because a Directed Order may be executed by a Market Maker. Finally, there is no reason to restrict Market Makers (and Lead Market Makers) in entering order types, except for the restriction related to Reserve Orders, in options classes in which they are appointed and non-appointed. Market Makers (and Lead Market Makers) continue to be obligated to add liquidity on the Exchange. Options 2, Section 6(b) restricts the number of contracts that a Market Maker may enter in an options class to which the Market Maker is not appointed. Quotes and

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151 See Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX) Options 2, Section 6 and NYSE Arca, Inc. Rule 6.37B-O and NYSE American LLC Rule 925.2NY.

orders entered by a Market Maker may not interact against quotes and orders entered on the opposite side of the market by the same Market Maker. Phlx's proposal to amend Options 3, Section 4(b)(6) to permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote does not significantly affect the protection of investors or the public interest. The Exchange also notes that remove the classification of Off-Floor Broker Dealer does not significantly affect the protection of investors or the public interest as this does not refer to a member of the Exchange. Eliminating the types of order that an Off-Floor Broker Dealer may enter also does not significantly affect the protection of investors or the public interest as such restrictions do not exist today on other options markets. Discontinuing Quote Exhaust does not significantly affect the protection of investors or the public interest because, today, Phlx offers various risk protections in its System limit executions at far away prices. Phlx offers an Acceptable Trade Range protection at Options 3, Section 15(b)(1), an Anti-Internalization protection at Options 3, Section 15(c)(1), and an Automated Quotation Adjustments protection at Options 3, Section 15(b)(2). Phlx is also proposing additional risk protections with this proposal. Other Nasdaq affiliated exchanges do not offer Quote Exhaust. Once discontinued, the Exchange's quoting functionalities will abide by Phlx's Options 3, Section 4 rules governing the entry and display of orders and the allocation methodology in Phlx Options 3, Section 10. Adopting a new rule in Phlx Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 does not significantly affect the protection of investors or the public interest and will protect investors and the general public by stating in its rules the manner in which Phlx would comply with Rule 602 of Regulation RMS. Additionally, providing Phlx with the ability to act in the case of unusual market conditions to maintain fair and orderly markets does not significantly affect the protection of investors or the public interest and would allow Phlx to manage trading in the same manner as ISE, GEMX and MRX in the event of unusual market conditions. The Exchange believes that the proposed changes to the rules governing Exchange order types does not significantly affect the protection of investors or the public interest. As described in the purpose section, the proposed changes consist of several functional enhancements to align the Exchange's order types to existing ISE, GEMX and MRX order types, and rule adjustments that add more specificity and clarity to existing order types. Adding an intra-day cancel timer feature mirrors existing ISE, GEMX and MRX functionality at Options 3, Section 7(a)(5), and would provide member organizations with additional flexibility and control to bring the Market Order back to the member organization so they can get an execution on another venue by canceling unexecuted Market Orders after a certain period of time. Allowing ISOs to have a TIF designation of IOC does not significantly affect the protection of investors or the public interest. Today, Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires on the day it is entered. The Exchange believes it is appropriate to no longer allow non-IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. This is also consistent with how ISE, GEMX and MRX currently handle ISOs in that they only allow ISOs to be entered as IOC. Adopting a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g) does not significantly affect the protection of investors or the public interest, rather it will align Phlx's current functionality for a Reserve Order to that of ISE, GEMX and MRX and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. Adopting Attributable Orders at Options 3, Section 7(h) that are identical to the order type in ISE, GEMX and MRX Options 3, Section 7(h) does not significantly affect the protection of investors or the public interest. An Attributable Order would be a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. This new order type will be available to all member organizations and the proposed rule change will promote competition, as Attributable Orders will provide member organizations with additional flexibility to manage their orders on the Exchange. This new order type may encourage market participants to bring additional liquidity to the market, which benefits all investors. Adopting Add Liquidity Orders at Options 3, Section 7(n) that are identical to ISE, GEMX and MRX Options 3, Section 7(n) does not significantly affect the protection of investors or the public interest. ALOs are limit orders that will only be executed as a "maker" on the Exchange. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. The ALO order type would provide market participants greater control over the circumstances in which their orders are executed. The purpose of an ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange believes that ALOs will accommodate this strategy. This new order type will be available to all member organizations. This new order type may encourage market participants to bring additional liquidity to the market, which benefits all investors. Adopting a new TIF designation, Good-Till-Date Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7 does not significantly affect the protection of investors or the public interest. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of "GTD," which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX. The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, at Options 3, Section 8(b) to note the eligible interest that will be included in the Opening Process, account for newly order types, amend the calculation of the Potential Opening Price to take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders) for the option series and identify the price at which the maximum number of contracts can trade does not significantly affect the protection of investors or the public interest. Amending Options 3, Section 8(j)(7), which currently describes the determination of Opening Quote Range ("OQR") boundaries, in certain scenarios does not significantly affect the protection of investors or the public interest.

Removing the current limitation that only allows routable Public Customer and Professional interest to route during the Opening Process thereby permitting all market participants to route and removes the impediments to and perfects the mechanism of a free and open market and a national market system. All routable market participant interest will be allowed to route to align the Exchange's opening functionality with ISE, GEMX and MRX which does not limit orders that may route in the Opening Process within Options 3, Section 8. The Exchange's proposal to amend Options 3, Section 9, Trading Halts, at (d)(3) to amend the manner in which a Stop Order will be treated during a trading halt does not significantly affect the protection of investors or the public interest. The Exchange proposes to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3). Today, after the opening, the Exchange will elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify member organizations of the reason for such cancellation. The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, does not significantly affect the protection of investors or the public interest. Phlx proposes to amend its rounding methodologies to round up to the nearest integer throughout the Rule. The Exchange is opting to round up and not down, uniformly, and disclose that rounding methodology directly within Options 3, Section 10, so that all member organizations are aware of the rounding methodology that would be utilized by the System. In addition, if the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because it is rounding up, the provisions which describe allocations for remainders of less than one contract cannot occur and therefore this rule text is being removed, as such remainders would not be mathematically possible. This methodology produces an equitable outcome during allocation that does not significantly affect the protection of investors or the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. Amending Options 3, Section 10(a)(1)(C), similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(C), not considering market maker orders when offering Directed Market Maker Priority does not significantly affect the protection of investors or the public interest. Only offering a Directed Market Maker an enhanced allocation on quotes is consistent with the obligations of a Directed Market Maker, to be quoting at the better of the internal PBBO or the NBBO at the time of receipt of the Directed Order.[152] Amending the Entitlement for Orders of 5 contracts or fewer to align with ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) does not significantly affect the protection of investors or the public interest. Changing the percentage from 25% to 40% will align Phlx with ISE, GEMX and MRX and permit market makers to have the same compliance across the Nasdaq exchanges.[153] Amending OPP in Options 3, Section 15(a)(1) to align certain features with the OPP functionality currently offered by its affiliates, NOM and BX, does not significantly affect the protection of investors or the public interest. The amendment introduces an alternative threshold that uses a configurable dollar amount will allow Phlx to establish appropriate boundaries for rejecting potentially erroneous orders while continuing to allow member organizations to access liquidity. The Exchange's proposal will establish a fixed dollar

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152 See Phlx Options 2, Section 10.

153 BX also utilizes 40%. See Options 3, Sections 10(a)(1)(C)(1)(c) and 10(a)(2)(iii).

amount as an alternative threshold in addition to the current percentage-based threshold, similar to NOM and BX Options 3, Section 15(a)(1). Temporarily deactivating OPP on an intra-day basis does not significantly affect the protection of investors or the public interest. As noted above, NOM and BX have identical language in Options 3, Section 15(a)(1)(A), and similar to NOM and BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like NOM and BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and orderly market. Lastly, the Exchange's proposal to amend Options 3, Section 15(a)(1) to remove the current exclusion of ISOs and Complex Orders from the OPP rule does not significantly affect the protection of investors or the public interest. The proposed changes to remove the exclusion of ISOs so that OPP would apply to them going forward does not significantly affect the protection of investors or the public interest. as this will promote the goal of limiting erroneous executions on the Exchange and in general, extend more protections to ISOs. Finally, the Exchange is removing Complex Orders as the simple risk protections do not apply to Complex Orders, rather the Complex Order risk protections in Options 3, Section 16 would apply. The proposed rule change to adopt MWRP would assist with the maintenance of a fair and orderly market by establishing new activity based risk protections for orders. The proposed MWRP is similar to risk management functionality provided in ISE, GEMX and MRX Options 3, Section 15(a)(1)(C). In particular, the proposed rule change would implement two new risk protections based on the rate of order entry and order execution, respectively. The Exchange believes that both of these new protections, which together encompass the proposed MWRP, would enable member organizations to better manage their risk when trading options on the Exchange by limiting the member organization's risk exposure when systems or other issues result in orders being entered or executed at a rate that exceeds predefined thresholds. Enhancing AIQ does not significantly affect the protection of investors or the public interest.as it is designed to provide Market Makers with additional flexibility with respect to how to implement self-trade protections provided by AIQ. Member organizations may continue to use current functionality, or member organizations that prefer to prevent self-trades across different market participant identifiers within the same Exchange account or at the member organizations firm level will now be provided with the means to do so under this proposal. Similar flexibility is offered on ISE, GEMX and MRX.[154] Similar to ISE, GEMX and MRX, the Exchange believes that flexibility to apply AIQ at the Exchange account or member organization firm level would be useful for the Exchange's member organizations as well. Amending Quotation Adjustments does not significantly affect the protection of investors or the public interest, rather it will enhance the risk protection tools available to Market Makers by introducing new Delta and Vega Thresholds that will be offered in conjunction with the current Percentage and Volume Thresholds, thereby strengthening a Market Maker's ability to manage their risk on the Exchange. The proposed thresholds are functionally identical to the Delta and Vega Thresholds provided in ISE, GEMX and MRX Options 3,

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[154] See ISE Options 3, Section 15(a)(3)(A). See also NOM and BX Options 3, Section 15(c)(1), which provide similar flexibility.

Section 15(a)(3)(B). Similar to ISE, GEMX and MRX, the Exchange believes that the proposed rule change may reduce Market Maker risk by allowing them to effectively manage their exposure to excessive risk. The proposed changes to amend when Rapid Fire and Multi-Trigger will be triggered and the modification to the Specified Time Periods will bring greater harmonization between the Exchange's rules and ISE's, GEMX's and MRX's rules. The Exchange believes that having more consistent rules will result in greater uniformity as well as less burdensome and more efficient regulatory compliance. In addition, offering more consistent functionality across Phlx, ISE, GEMX and MRX will contribute to less complexity and reduce potential confusion for market participants on Phlx that are also participants on ISE, GEMX and MRX. Adopting Active Quote Protection risk protection does not significantly affect the protection of investors or the public interest because it will enhance the risk protection tools available to Market Makers and Groups by introducing a new method of establishing and monitoring for risk parameters that will be offered as an alternative to existing Rapid Fire risk parameters, thereby supporting a Market Maker's ability to manage their risk on the Exchange, and also providing them with flexibility to use additional tools to manage risk. The Exchange believes that offering more risk management tools to Market Makers would mitigate their exposure to excessive risk. The Exchange further believes that having the new Active Quote Protection functionality leverage the existing Multi-Trigger functionality will similarly support a Market Maker's ability to manage their risk on the Exchange by including Active Quote Protection purge events to the Multi-Trigger counter. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. The Exchange's proposal to amend Options 3, Section 15, Risk Protections, to codify new paragraph (c)(3) to permit Phlx Market Makers to prevent their quotes from removing liquidity from the Exchange's order book does not significantly affect the protection of investors or the public interest. The proposal enhances the risk protections available to Phlx Market Makers. The proposal also promotes the policy goals of the Commission which has encouraged execution venues, exchanges, and non-exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability. While Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the Phlx order book upon entry, there are also downstream benefits to market participants. Additionally, the benefits of enhanced risk protections flow downstream to counterparties both within and away from the Exchange, thereby increasing systemic protections as well. Finally, the proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on Phlx's order book upon entry, thereby protecting investors and the general public as Phlx Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Phlx Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing and enhanced allocations. There is no impact to other market participants by introducing this Post-Only Quote Configuration as other non-Market Makers may utilize the proposed Add Liquidity Only order type that will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with interest on Phlx's order book and thereby interact with order flow that is priced better than the NBBO. Also, other market participants may interact with the liquidity provided by Market Makers. Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis[155] and are subject to various obligations associated with providing liquidity on the market.[156] Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Phlx Options 3, Section 15 to allow them to manage their risk more effectively. The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange's proposal to amend Phlx Options 3, Section 23, Data Feeds and Trade Information, does not significantly affect the protection of investors or the public interest. The amendments harmonize the names of the feeds to ISE, GEMX and MRX Options 3 Section 23(a). No longer offering TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, does not significantly affect the protection of investors or the public interest as there is a lack of demand from member organizations.[157] As noted above, member organizations use FIX and CTI to

155 See Phlx Options 2, Section 5.

156 See Phlx Options 2, Section 4.

157 As noted above, the Exchange will provide prior notice of the decommission to all member organizations through an Options Trader Alert.

obtain order information currently available in TradeInfo, and to cancel orders through FIX. Eliminating TradeInfo pricing from Options 7, Section 9B in its entirety does not significantly affect the protection of investors or the public interest because TradeInfo would no longer be available to any member organization. Introducing the optional risk protections does not significantly affect the protection of investors or the public interest, rather it will provide market participants with another tool to manage their order risk. In addition, providing member organizations with more tools for managing risk will facilitate transactions in securities because member organizations will have more confidence that risk protections are in place. ISE, GEMX and MRX offer identical optional risk protections at Options 3, Section 28. Amending Options 5, Section 4, Order Routing, to align Phlx's routing to ISE Options 4, Section 5 does not significantly affect the protection of investors or the public interest. The Exchange's proposal to align its rules with ISE will provide Phlx member organizations the same flexibility for routing orders that is afforded to ISE Members today. With respect to FIND and SRCH, the Exchange is adding more detail to its routing rule to provide market participants with greater transparency. The Exchange believes the added scenarios will provide more context to routing in general and for the specific routing strategies for the benefit of investors and the public interest. The Exchange continues to offer various choices to its market participants with respect to routing. A member organization may elect either (1) to not route their orders and mark those orders "DNR"; or (2) to route their orders. If a member organization elects to route their orders, then a member organization may select to mark their orders as "FIND" or "SRCH" Orders. Amending Options 6, Section 1, Authorization to Give Up, to align Phlx's process to that of ISE, GEMX and MRX

Options 6, Section 1 to prevent an authorized Give-Up to be with a Restricted OCC Number that is submitted to the System from being processed does not significantly affect the protection of investors or the public interest. The Exchange's proposed new process provides proper additional safeguards and protections for Clearing Members and continues to provide controls for Clearing Members to restrict access to their OCC clearing numbers, allowing access only to those Authorized Members upon their request. The proposal will harmonize Phlx's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1.

The Exchange's proposal does not significantly affect the protection of investors or the public. The Exchange's proposal to amend Options 2, Section 6 reflects its policy and objectives, and does not significantly affect the protection of investors or the public because it treats all Market Makers (and Lead Market Makers) uniformly with respect to permissible order types. Market Makers and Lead Market Makers, unlike other market participants, are required to abide by certain quoting requirements in the options classes in which they are appointed pursuant to Options 2, Section 5, in order to maintain the status of a Market Maker. The Exchange also notes that Options 2, Section 6(b) restricts the number of orders that a Market Maker may enter in an options class to which the Market Maker is not appointed. The Exchange believes that permitting a Market Maker to enter additional eligible order types, except Customer Cross Orders and Reserve Orders, in their appointed options class will permit Market Makers additional latitude to conduct business on Phlx and effectively compete with other market makers on other options exchanges. Eliminating the category of Off-Floor Broker Dealer does not significantly affect the protection of investors or the public because such a category does not refer to a member. Also, no longer restricting certain Off-Floor Broker Dealer Orders does not significantly affect the protection of investors or the public because those orders are not related to certain member classifications. Amending Options 3, Section 4(b)(6) to permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote does not significantly affect the protection of investors or the public because all Market Makers may utilize the functionality when entering quotes into the System. Discontinuing Quote Exhaust does not significantly affect the protection of investors or the public as Phlx offers various risk protections in its System limit executions at far away prices. Phlx offers an Acceptable Trade Range protection at Options 3, Section 15(b)(1), an Anti-Internalization protection at Options 3, Section 15(c)(1), and an Automated Quotation Adjustments protection at Options 3, Section 15(b)(2). Also, other Nasdaq affiliated exchanges do not offer Quote Exhaust. Once discontinued, the Exchange's quoting functionalities will abide by Phlx Options 3, Section 4 which governs the entry and display of orders and the allocation methodology in Options 3, Section 10. Adopting a new rule in Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 does not significantly affect the protection of investors or the public as these rules add transparency and provide Phlx with the ability to act in the case of unusual market conditions to maintain fair and orderly markets in the same manner as ISE, GEMX and MRX in the event of unusual market conditions. The Exchange's proposal to amend Phlx's existing order types so that they are identical to order types available on ISE, GEMX and MRX Options 3, Section 7 and to adopt new order types such as a Fill-or-Kill Order, Reserve Order, and Attributable Order does not impose an inter-market burden because all market participants would be able to utilize all of the order types, except Market Makers with respect to Reserve Orders. The Exchange's proposal would permit Market Makers (and Lead Market Makers) to enter Market Orders and Stop Orders. All non-Public Customers would be permitted to enter AON Orders and Off-Floor Broker Dealers would not be restricted from entering AON Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders. Restricting Market Makers (and Lead Market Makers) from entering Reserve Orders does not impose an intra-market burden on competition because Market Maker (and Lead Market Maker) liquidity should be displayed, and Reserve Orders have non-displayed portions of liquidity. Finally, the Exchange would no longer classify a market participant as an Off-Floor Broker Dealer because it is eliminating that category. Where restrictions on market participant exist today such as with a Stop Order, or an All-or-None Order, the Exchange is removing the restrictions or abolishing the category such as with Off-Floor Broker Dealer Orders. Amending Options 3, Section 8, Options Opening Process, to make clarifying rule changes, add System detail concerning new order types, and adjust rounding does not significantly affect the protection of investors or the public because all market participants would be subject to the Opening Process. The Exchange is removing limitations to routing Public Customer and Professional interest from the Opening Process. Amending Options 3, Section 9, Trading Halts, to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3) and make other minor changes amend because all market participants would be subject to the Trading Halts rule. Amending Options 3, Section 10, Electronic Execution Priority and Processing in the System, to round up does not significantly affect the protection of investors or the public because the Exchange is opting to round up and not down, uniformly. The Exchange's proposed rounding methodology provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange's proposal to amend Options 3, Section 10, to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order does not significantly affect the protection of investors or the public because the Directed Market Maker only has obligations related to quoting. The Exchange's proposal to amend the Entitlement for Orders of 5 contracts or fewer to increase the percentage from 25% to 40% does not significantly affect the protection of investors or the public because the proposal aligns to other exchanges such as ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) would not place Phlx at a competitive disadvantage to other options markets that utilize a 40% threshold. All of the proposed changes related to the risk protections (OPP, MWRP, Acceptable Trade Range, Anti-Internalization, Quotation Adjustments, Post-Only Quoting Protection and Active Quote Protection) does not significantly affect the protection of investors or the public as they are all aimed at mitigating market participant risk associated with trading on the Exchange. The proposed changes are designed to benefit market participants in that they will provide a more consistent technology offering for market participants on Nasdaq affiliated exchanges. The Exchange also notes that some of the proposed risk controls (e.g., Delta and Vega Thresholds and Post Only Quoting Protection) are completely voluntary. The Post-Only Quoting Protection proposal does not impose a burden on inter-market competition, because member organizations may choose to become market makers on a number of other options exchanges, which may have similar but not identical features. While the Exchange will offer the proposed functionality to Market Makers only, the proposed risk protection is intended to provide Market Makers with an additional tool to manage their risk parameters in a manner they deem appropriate. As such, the Exchange believes that the proposed functionality may facilitate Market Makers' provision of liquidity on the Exchange, thereby benefitting all market participants through additional execution opportunities at potentially improved prices. Offering Market Makers the ability to configure their quotes as Post-Only will allow all market participants on Phlx to add liquidity only if desired. Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis[158] and are subject to various obligations associated with providing liquidity on the market.[159] Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively. As it relates to the elimination of fees for TradeInfo from Options 7, the Exchange believes that its proposal does not significantly affect the protection of investors or the public because TradeInfo would no longer be available to any Members. The Exchange believes that introducing the optional quantity and notional value risk protections does not significantly affect the protection of investors or the public as it will provide market participants with another tool to manage their order risk. The Exchange's proposal to amend its routing rule, similar to ISE Options 5, Section 4, with respect to FIND Orders and SRCH Orders does not significantly affect the protection of investors

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[158] See Phlx Options 2, Section 5.

[159] See Phlx Options 2, Section 4.

or the public because the proposed routing rules apply to all market participants including routing during an Opening Process. The Exchange believes that adding greater detail to its rules does not impose an undue burden on intra-market competition, rather it provides greater transparency as to the potential outcomes when utilizing different routing strategies. As is the case today, market participants may elect not to route their orders. The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not significantly affect the protection of investors or the public, rather it will permit both floor and electronic members at time of trade to indicate a Give-Up at the time of trade. Today, electronic trading members indicate a Give-Up in the post allocation process. The proposal will create a uniform process for Give-Up for all member organizations and harmonize Phlx's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1. The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that it can only be submitted by a Public Customer does not significantly affect the protection of investors or the public because all Phlx members will be able to utilize this order type. The Exchange's proposal to add an OPG TIF as an available TIF for the trading floor does not impose an undue burden on intra-market competition because all Phlx members will be able to utilize this TIF.

Furthermore, Rule 19b-4(f)(6)(iii)[160] 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.

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[160] 17 CFR 240.19b-4(f)(6)(iii).

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.

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

The following proposed rule changes are based on the various rules or proposals of various options exchanges, primarily the Nasdaq affiliated options exchanges:

- The proposed changes to Phlx Options 2, Section 6, Market Maker Orders, are identical to the rule text in ISE, GEMX and MRX Options 2, Section 6.
- The proposed amendments to Phlx Options 3, Section 4(b)(6) are identical to the rule text in ISE, GEMX and MRX Options 3, Section 4(b)(6).
- The proposed order type changes to Phlx Options 3, Section 7 are identical to the order types in ISE, GEMX and MRX Options 3, Section 7.
- The Opening Process proposal in Phlx Options 3, Section 8 to allow all market participant interest to route will be identical to ISE's, GEMX's and MRX's Opening Process at Options 3, Section 8.
- The proposed change to Phlx Options 3, Section 10(a)(1)(C) for the Directed Market Maker Priority is identical to the rule text in ISE, GEMX and MRX Options 3, Section 10(c)(1)(C). The amendment to the Entitlement of Orders of 5 contracts or fewer percentage in Phlx Options 3, Section 10(a)(1)(C) is identical to ISE, GEMX and MRX Options 3, Section 10(a)(1)(D). Finally, the

amendments to Phlx Options 3, Section 10(a)(2) are identical to ISE, GEMX and MRX Options 3, Section 10(a)(2).

- The proposed OPP risk protection in Phlx Options 3, Section 15(a)(1)(A) will be identical to NOM and BX Options 3, Section 15(a)(1).
- The proposed Market Wide Risk Protections in Phlx Options 3, Section 15(a)(1)(C)(3) are identical to BX Options 3, Section 15(a)(3).
- The proposed amendments to the anti-internalization ("AIQ") functionality at Phlx Options 3, Section 15(c)(1) are identical to ISE, GEMX and MRX Options 3, Section 15(a)(3)(A).
- The proposed amendment to "Rapid Fire" risk protections at Phlx Options 3, Section 15(c)(2) are identical to BX Options 3, Section 15(c)(2).
- The proposed amendments to the Active Quote Protection at Phlx Options 3, Section 15(c)(2)(B) are identical to BX Options 3, Section 15(c)(2)(B).
- The proposed amendments to the Post-Only Quote Configuration in Phlx Options 3, Section 15(a)(3) are identical to the BX Options 3, Section 15(c)(3).
- The proposed optional quantity and notional value risk protections in Options 3, Section 28 are identical to ISE, GEMX and MRX Options 3, Section 28.
- The proposed amendments to Give-Up at Phlx's Options 6, Section 1 are similar to ISE, GEMX and MRX Options 6, Section 1.

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

Not applicable.

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

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-Phlx-2024-71)

December __, 2024

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Various Phlx Rules in Connection with a Technology Migration

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on December 12, 2024, Nasdaq PHLX LLC ("Phlx" 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 2, Section 6, Market Maker Orders. The Exchange also proposes to amend the following Options 3 Rules: Section 4, Entry and Display of Quotes; Section 6, Firm Quotations; Section 7, Types of Orders and Order and Quote Protocols; Section 8, Opening Process; Section 9, Trading Halts; Section 10, Electronic Execution Priority and Processing in the System; Section 15, Simple Order Risk Protections; Section 23, Data Feeds and Trade Information; and Section 28, Optional Risk Protections. The Exchange also proposes to amend Options 5, Section 4,

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

2 17 CFR 240.19b-4.

Order Routing; Options 6, Section 1, Authorization to Give-Up; Options 7, Section 9, B, Port Fees; and Options 8, Section 32, Types of Floor-Based (Non-System) Orders.

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

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

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

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

1. Purpose

In connection with a technology migration to an enhanced Nasdaq, Inc. ("Nasdaq") functionality which will result in higher performance, scalability, and more robust architecture, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq affiliate exchanges. As further discussed below, the Exchange is proposing to adopt such functionality substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

Specifically, the Exchange proposes to amend Options 2, Section 6, Market Maker Orders and the following Options 3 Rules: Section 4, Entry and Display of Quotes; Section 6, Firm Quotations; Section 7, Types of Orders and Order and Quote Protocols; Section 8, Opening Process; Section 9, Trading Halts; and Section 10, Electronic Execution Priority and Processing in the System;[3] Section 15, Simple Order Risk Protections; Section 23, Data Feeds and Trade Information; and Section 28, Optional Risk Protections. The Exchange also proposes to amend Options 5, Section 4, Order Routing; Options 7, Section 9, B, Port Fees; and Options 8, Section 32, Types of Floor-Based (Non-System) Orders. Each rule change is described below.

Options 2, Section 6

Options 2, Section 6(a) currently states that Market Makers[4] and Lead Market Makers[5] may enter all order types defined in Options 3, Section 7(b) in the options

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[3] Phlx Options 1, Section 1(b)(57) provides, [t]he term "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises: (i) an order execution service that enables members to automatically execute transactions in option series; and provides members with sufficient monitoring and updating capability to participate in an automated execution environment; (ii) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority ("OPRA") for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and (iii) the data feeds described at Options 3, Section 23.

[4] A "Market Maker" means a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System. See Options 1, Section 1(b)(28).

[5] A "Lead Market Maker" means a member who is registered as an options Lead Market Maker pursuant to Options 2, Section 12(a). A Lead Market Maker includes a Remote Lead Market Maker which is defined as a Lead Market Maker in one or more classes that does not have a physical presence on the Exchange's Trading Floor and is approved by the Exchange pursuant to Options 2, Section 11. See Options 1, Section 1(b)(27).

classes to which they are appointed and non-appointed, except for Market Orders as provided in Options 3, Section 7(b)(1), Stop Orders as provided in Options 3, Section 7(b)(4), All-or-None Orders as provided in Options 3, Section 7(b)(5), Directed Orders as provided for in Options 2, Section 10, and Public Customer-to-Public Customer Cross Orders subject to Options 3, Section 13(a) and (f).

The Exchange proposes to remove the Market Maker restrictions related to Market Orders,[6] Stop Orders,[7] All-or-None Orders[8] and Directed Orders[9] so as not to restrict the ability of a Lead Market Maker or Market Maker from entering orders they may enter today on other options markets.[10] With this proposed change, Market Makers would be permitted to enter Market Orders, Stop Orders and All-or-None Orders similar to other market participants, and similar to market makers on ISE, GEMX and MRX, as explained below in greater detail. Also, today, Market Makers may enter all Complex

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6 A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Lead Market Makers, Market Makers, and Off-Floor Broker-Dealers may not submit Market Orders. See Phlx Options 3, Section 7(b)(1).

7 A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Lead Market Makers and Maker Makers may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order. See Phlx Options 3, Section 7(b)(4).

8 An All-or-None Order is a Limit Order or Market Order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer as an Immediate-or-Cancel Order. The Acceptable Trade Range protection in Options 3, Section 15(a) is not applied to All-Or-None Orders. See Phlx Options 3, Section 7(b)(5).

9 The term "Directed Order" means any order to buy or sell which has been directed to a particular Lead Market Maker, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via the System. See Phlx Options 2, Section 10.

10 The Exchange proposes to delete the term "Lead Market Makers" in Options 2, Section 6(a) as the term "Market Makers" includes "Lead Market Makers." Both terms are not necessary. Additionally, removing the term "Lead Market Makers" harmonizes the rule text in Phlx Options 2, Section 6(a) to ISE, GEMX, MRX and BX Options 2, Section 6(a).

Order types. To make this clear in the rule text, the Exchange proposes to reference Options 3, Section 14, which governs Complex Orders, in addition to referencing Options 3, Section 7(b), which governs simple orders.[11]

Additionally, as currently noted in Options 3, Section 7(e), Off-Floor Broker-Dealers may not enter All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f). The Exchange is also proposing to remove the restrictions applicable to Off-Floor Broker-Dealers. Today, Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") Options 2, Section 6 do not provide similar restrictions as Phlx for Market Orders, Stop Orders and All-or-None Orders.

The Exchange proposes to permit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter Market Orders and Stop Orders similar to all other market participants on Phlx. Today, all market participants, including Lead Market Makers, Market Makers and Off-Floor Broker Dealers[12] may transact Market Orders and Stop Orders on other options markets.[13] The Exchange does not believe there is any reason to restrict Lead Market Makers, Market Makers and Off-Floor Broker Dealers from entering Market Orders or Stop Orders. Previously, in a 2019 rule change[14] Phlx noted that it

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11 Today, Options 3, Section 14 includes all Complex Order Types that may be traded by any market participant.

12 Phlx Options 1, Section 1(b)(33) provides, [t]he term "Off-Floor Broker-Dealer Order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

13 See Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX) Options 2, Section 6 and NYSE Arca, Inc. Rule 6.37B-O and NYSE American LLC Rule 925.2NY.

14 See Securities Exchange Act Release No. 87691 (December 9, 2019), 85 FR 68197 (December 13, 2019) (SR-Phlx-2019-52) (Notice of Filing and Immediate Effectiveness of Proposed Rule

believed that prohibiting Market Makers from entering Market Orders was consistent with the Act because Market Orders are designed to remove liquidity from the Order Book. Further, that rule change noted that Stop Orders are non-displayed order types until they are triggered which does not benefit the role of a Market Makers in displaying liquidity on the Order Book.[15] Stop Orders are triggered by either the occurrence of a transaction or posting on the order book. Once triggered, the order becomes displayed as either a Market Order or Limit Order as described in greater detail below in the discussion of Stop Orders in Options 3, Section 7. At this time, the Exchange proposes to permit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter both Market Orders and Stop Orders. Today, ISE, GEMX and MRX do not prohibit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers from entering a Market Order and Stop Order on those markets, and those markets have not observed any adverse consequences. Also, current Phlx Options 2, Section 6 restricts the number of contracts that a Market Maker may enter in a quarter,[16] thereby preventing Market Makers from entering an unlimited quantity of orders. In addition, the Exchange would no longer prohibit an Off-Floor Broker Dealer from entering a Market Order for the same reasons.[17] All Market Makers, including away market makers, are restricted to a total number of

Change To Amend Order Types and Remove and Relocate Certain Rule Text Currently Located Within Rule 1080).

15 Id.

16 Pursuant to Phlx Options 2, Section 6, the total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

17 Current Phlx Options 3, Section 7(e) provides that, an off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f).

contracts executed during a quarter in options series to which it is not appointed of twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series as all options markets impose this restriction on market makers. The Exchange does not believe there is any reason to restrict Off-Floor Broker Dealers from entering Market Orders in options classes, rather, the Exchange proposes to permit all member organizations to be able to enter Market Orders. Finally, the Exchange believes that harmonizing the ability for Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter both Market Orders and Stop Orders across ISE, GEMX, MRX and Phlx will allow market participants to enter equivalent order types on all these markets. For these reasons, Phlx believes Lead Market Makers, Market Makers and Off-Floor Broker Dealers should be permitted to utilize Market Orders and Stop Orders to remove liquidity from its order book without impacting their ability to provide liquidity.

Today, Phlx restricts all market participants from entering All-or-None Orders except Public Customers.[18] Similar to other options markets, the Exchange proposes to permit all market participants to enter All-or-None Orders. The Exchange is proposing to amend the All-or-None Order type in Options 3, Section 7 to reflect this proposed change as explained further below. By way of background, in 2019, the Exchange amended its All-or-None Order to no longer offer the order type to Professionals.[19] At the time, the Exchange noted that permitting Public Customers to enter All-or-None Orders with

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18 This includes Off-Floor Broker Dealers as noted in current Options 3, Section 7(e).

19 See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (March 13, 2019) (SR-Phlx-2019-03) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Option Floor Procedure Advice A-9 and Phlx Rules 1000 and 1066 and To Adopt a New Phlx Rule 1078). Prior to this rule change, All-or-None Orders were available to Public Customers and Professionals, ("2019 AON Rule Change").

specific size limitations that rest on the Order Book would continue to allow Public Customers the opportunity to obtain fills for their orders when the market moves even if the All-Or-None Order was not immediately executable upon entry. The Exchange notes that in 2023, it amended All-or-None Orders so that they would no longer rest on the order book, rather the order type would be executed in its entirety, or it will cancel if it cannot execute.[20] With this change, the prior reasoning is no longer a reason to restrict the order type to Public Customer use only. The Exchange proposes to remove the restriction that only permits Public Customers to enter the order type and allow all market participants to utilize the All-or-None Order which now does not rest on the order book. The Exchange proposes to reflect the removal of the restriction in Options 2, Section 6 to reflect the fact that Market Makers would be able to trade All-or-None Orders. The Exchange also explains this change below in Options 3, Section 7 with respect to the order type amendments for All-or-None Orders. Permitting all market participants to enter an AON Order will harmonize the order type to ISE, GEMX and MRX Options 3, Section 7(c) which also permit all market participants to utilize this order type.

The Exchange notes that Directed Orders are orders directed to a Market Maker by an Order Flow Provider. An order becomes a Directed Order when it interacts with a Market Maker quote that is at the NBBO at the time of receipt of the Directed Order. The Exchange believes it is misleading to include a Directed Order in this list because a Directed Order may be executed by a Market Maker.

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[20] See Securities Exchange Act Release No. 98142 (August 16, 2023), 88 FR 57140 August 22, 2023) (SR-Phlx-2023-34) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Phlx's All-or-None Order) ("2023 AON Rule Change").

Third, the Exchange proposes to amend "Public Customer-to-Public Customer Cross Orders" to "Customer Cross Orders" to align with the name of this order type on ISE, GEMX and MRX Options 3, Section 7(i). The Exchange proposes to relocate the definition of Public Customer-to-Public Customer Cross Orders" from Options 3, Section 13 to proposed Options 3, Section 7(i). A Customer Cross Order cannot be entered by a Market Maker. The Exchange believes noting this exception in this order type will bring greater transparency to Options 2, Section 6. Additionally, the Exchange proposes to adopt a Reserve Order at Options 3, Section 7(g). A Reserve Order is a limit order with a displayed and non-displayed portion.

The Exchange believes that Market Maker liquidity should be displayed liquidity.[21] For these reasons, and to remain competitive with other markets, the Exchange proposes to permit Market Makers to enter all orders they are eligible to submit, with the exception of Reserve Orders, and restrict Reserve Orders in the non-appointed classes similar to ISE, GEMX and MRX Options 2, Section 6. As noted above, Market Makers are not able to enter Reserve Orders.

The Exchange also proposes to amend the rule citations to align with the relocated rule text. Finally, the Exchange proposes to renumber the remainder of the text within Options 2, Section 6, related to total number of contracts that may be executed in a quarter, as new "b." The proposed rule text of Options 2, Section 6 will align with ISE, GEMX and MRX Options 2, Section 6.

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[21] While Stop Orders are not displayed until triggered, the Exchange notes that once triggered a Stop Order would be displayed as either a Market or Limit Order.

<u>Options 3, Section 4</u>

With respect to quotes, today, as set forth in Options 3, Section 4(b)(6), if, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will either be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed and displayed at one minimum price variance above (for offers) or below (for bids) the national best price. The Exchange now proposes to amend the quote re-pricing mechanism currently described in Phlx Options 3, Section 4(b)(6) by harmonizing it with ISE, GEMX and MRX Options 3, Section 4(b)(6). As amended, the quote re-pricing language in Options 3, Section 4(b)(6) would be amended to provide: "If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, *or immediately cancelled, as configured by the member organization*." With this amendment, Phlx would permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote. The Exchange believes this functionality will provide member organizations with more flexibility in handling their quotes.

Further, the Exchange proposes to remove the Quote Exhaust functionality which is explained further below. In connection with the removal of that functionality, the Exchange proposes to amend Options 2, Section 6(b)(8) to remove a reference to the Quote Exhaust.

Options 3, Section 6

Currently, Options 3, Section 6, Firm Quotations, describes the Exchange's Quote Exhaust functionality that was adopted in 2009.[22] Quote Exhaust occurs when the Exchange's disseminated market at a particular price level includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order through the initial execution price.[23] The initial execution price that gives rise to Quote Exhaust is known as the "reference price."[24] Under Quote Exhaust, any order volume that is routed to away markets will be marked as an ISO.[25] When a Quote Exhaust occurs, the System will initiate a "Quote Exhaust Timer" that applies to all options traded on the System, not to exceed one second, during which any participant (including any participant(s) whose size was exhausted) may submit quotes, sweeps or orders at any price level.[26] Today, during the Quote Exhaust Timer, the Exchange will disseminate the reference price for the remaining size, provided that such price does not lock an away market, in which case, the Exchange will disseminate a bid and offer that is one MPV from the away market price. Today, the Exchange will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the

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[22] See Securities Exchange Act Release No. 59721 (April 9, 2009), 74 FR 17245 (April 14, 2009) (SR-Phlx-2009-32) (Notice of Filing of Proposed Rule Change Relating to the Exchange's Enhanced Electronic Trading Platform for Options, Phlx XL II).

[23] See Phlx Options 3, Section 6(a)(2)(B)(2).

[24] Id.

[25] Id.

[26] See Phlx Options 3, Section 6(a)(2)(B)(2)(a).

remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. If the remaining contracts in the initiating quote or order are either traded or cancelled during the Quote Exhaust Timer, the Quote Exhaust Timer will be terminated, and normal trading will resume.[27]

Today, if the Exchange receives an order, quote or sweep on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that locks or crosses the reference price at any time during the Quote Exhaust Timer, it will execute immediately against the initiating quote or order at the reference price. If the initiating quote or order that caused the Quote Exhaust is exhausted, the Quote Exhaust Timer will be terminated. Today, with respect to any order, quote or sweep received on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that is inferior to the reference price, the system will place any non-IOC order onto the book. Such non-IOC order on the book will be included in the first PBBO calculation following the end of the Quote Exhaust Timer. All non-marketable sweeps and IOC orders will be cancelled immediately if not executed and will not participate in the Quote Exhaust process.[28] Today, if the Exchange receives an order, quote or sweep on the same side of the market as the initiating quote or order during the Quote Exhaust Timer, the System will cancel any such sweep or IOC order. If such new quote or order, other than an IOC order, is a market or marketable Limit Order or marketable quote (i.e., priced at or through the reference price) the System will display it at the reference price, with a

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27 See Phlx Options 3, Section 6(a)(2)(B)(2)(b).

28 See Phlx Options 3, Section 6(a)(2)(B)(2)(c).

disseminated size that is the sum of such order and/or quote plus the remaining contracts in the initiating order or quote.[29]

Today, at the end of the Quote Exhaust Timer, if there are still unexecuted contracts remaining in the initiating quote or order or any new interest on the same side of the market, the System will calculate a new Phlx Best Bid/Offer ("PBBO"). The PBBO includes the remaining unexecuted portion of the initiating quote or order plus any new interest received on the same side of the market at the reference price, or if locking or crossing the ABBO, at one minimum trading increment away from the ABBO, for the full available size. The other side of the PBBO will be the actual Exchange interest at the best price.[30]

Today, the System will conduct an Acceptable Range Test to determine if the next available price on the Exchange is within an Acceptable Range.[31] The System will first determine whether to trade at the next available Phlx price by comparing it to the Acceptable Range price (defined as, with respect to an initiating buy order, the highest price of the Acceptable Range, and, with respect to an initiating sell order, the lowest price of the Acceptable Range) and the Away Best Bid/Offer ("ABBO") price to establish a "Best Price".[32] Current Options 3, Section 6(g)(1) describes the Best Price. The current rules review the various potential scenarios including where the initiating quote or order does not lock the Best Price, locks the Best Price, crosses the Best Price,

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29 See Phlx Options 3, Section 6(a)(2)(B)(2)(d).

30 See Phlx Options 3, Section 6(a)(2)(B)(2)(e).

31 See Phlx Options 3, Section 6(a)(2)(B)(2)(f).

32 See Phlx Options 3, Section 6(a)(2)(B)(2)(g).

the order is not routable, and remainders.[33] The current rule also considers scenarios where there are no offers on the Exchange and on away markets in the affected series, or no bids or a zero priced bid on Exchange.[34]

Today, with Quote Exhaust, the Exchange disseminates an updated bid and offer prices together with the size associated with such bid and offer in certain cases.[35] All quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders[36] at the disseminated price in an amount up to the disseminated size,[37] except in certain cases.[38] Finally, today, responsible brokers or dealers that receive an order to buy or sell a listed option at the disseminated price in an

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33 See Phlx Options 3, Section 6(a)(2)(B)(2)(g)(1)-(6).

34 See Phlx Options 3, Section 6(a)(2)(B)(3).

35 See Phlx Options 3, Section 6(a)(2)(C).

36 Phlx Supplementary .01 to Options 3, Section 6 provides, "Broker-dealer orders" includes orders for the account(s) of market makers on another exchange and Market Makers on the Exchange.

37 Phlx Options 3, Section 6(b)(1) provides in pertinent part that, except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size. If the responsible broker or dealer is representing (as agent) a Limit Order, such responsible broker or dealer shall be responsible (as agent) up to the size of such Limit Order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such Limit Order to the extent provided in General 2, Section 17. Phlx Options 2, Section 6(b)(2) provides in pertinent part that, in the event an SQT, RSQT or Lead Market Maker in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or Lead Market Maker member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

38 Phlx Options 2, Section 6(c) provides in pertinent part that, the requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.

amount greater than the disseminated size shall, within thirty (30) seconds of receipt of the order, (i) execute the entire order at the disseminated price (or better), or (ii) execute that portion of the order equal to the disseminated size at the disseminated price (or better), and revise its bid or offer.[39]

Quote Exhaust was designed to enhance the process for refreshing a Market Maker's quote that has been fully exhausted by an incoming quote or order that has, after exhausting the Phlx quote at a particular price level, remaining size to be executed at a price through the reference price. The Quote Exhaust functionality was intended to provide an opportunity for remaining portions of incoming quotes or orders to be executed on the Exchange at prices that are equal to or better than away markets by allowing Market Makers to refresh their quotes before routing away, thus potentially providing better prices at which to execute such remaining portions. Quote Exhaust is intended to provide an opportunity for such quote or order to receive a price for that order better than the next price that would otherwise be available on Phlx whether by executing on the Phlx or by routing to applicable away markets. This functionality implements price checks to limit executions at far away prices.

At this time, Phlx proposes to discontinue Quote Exhaust. Today, the Exchange offers various risk protections in its System to limit executions at far away prices. Phlx offers an Acceptable Trade Range protection at Options 3, Section 15(b)(1) and an Automated Quotation Adjustments protection at Options 3, Section 15(c)(2). In light of these additional protections and other risk protections that the Exchange is adding with this proposal within Options 3, Section 15, the Exchange does not believe that the Quote

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[39] See Phlx Options 2, Section 6(d).

Exhaust protection is required any longer. Other Nasdaq affiliated exchanges do not offer Quote Exhaust. Once discontinued, the Exchange's quoting functionalities will continue to abide by Phlx's Options 3, Section 4 rules governing the entry and display of orders and the allocation methodology in Options 3, Section 10. By way of example,

Market Maker quotes 1.00 (100) x 1.10 (100)

FIX Order to Sell 101 @ 0.95 arrives

Order trades 100 @ 1.00 with the quote

The quote purges as its entire bid side volume were exhausted

The remaining 1 contract books

Today, the Quote Exhaust timer begins – the reference price is displayed for the remaining 1 contract of the initiating sell order, and the displayed bid is disseminated to OPRA with a 'non-firm' indicator; Dissemination is 0.00 (0) x 1.00 (1), bid not firm

Quote Exhaust timer concludes

Today, a firm quote is now disseminated to OPRA; dissemination is 0.00 (0) x 0.95 (1)

As proposed, without Quote Exhaust, there will be no period during which the order is disseminated at the Quote Exhaust Reference Price; instead, the order's remainder will book and display at its limit price right away. The Exchange will continue to purge the other side of the quote due to one side being exhausted, as is the case today on ISE, GEMX, MRX that do not have a similar quote exhaust mechanism.

Without Quote Exhaust:

Market Maker quotes 1.00 (100) x 1.10 (100)
FIX Order to Sell 101 @ 0.95 arrives
Order trades 100 @ 1.00 with the quote
The quote purges as its entire bid side volume were exhausted
The remaining 1 contract books
A firm quote is disseminated to OPRA; dissemination is 0.00 (0) x 0.95 (1)

With respect to the interaction between the Quote Exhaust and risk protections, the Exchange notes that instead of first being posted at the Quote Exhaust Reference Price, aggressively priced orders can instead post right away at the Acceptable Trade Range Threshold[40], allowing for quicker order execution while still providing order exposure and pauses between price bands, which continues to allow for risk mitigation. By way of example,

Note that the configured Acceptable Trade Range (ATR) price band is $0.07 in the price range used in this example.

Market Maker1 quotes 2.00 (10) x 2.12 (10)

Firm enters FIX Order to Buy 10 @ 1.80

Public Customer enters FIX Market Order to Sell 20 @ MKT

Trades 10 @ 2.00 with Market Maker1's quote

Market Maker 1's quote is purged as its entire bid side volume has been exhausted

Quote exhaust commences and displays the remainder of the Public Customer's market order at the quote exhaust reference price, disseminating to OPRA: 1.80 (10) x 2.00 (10), bid not firm

Quote exhaust timer passes

The remainder of the Public Customer's market order now posts at the Acceptable Trade Range (ATR) Threshold of 1.93, disseminating to OPRA: 1.80 (10) x 1.93 (10), bid not firm

ATR Posting Period (iteration #1) passes

The remainder of the Public Customer's market order now posts at the new ATR Threshold of 1.86, disseminating to OPRA: 1.80 (10) x 1.86 (10), bid not firm ATR Posting Period (iteration #2) passes

The remainder of the Public Customer's market order now trades with the Firm FIX order on the book, 10 @ 1.80

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40 See Phlx Options 3, Section 15(b)(1) which describes the Acceptable Trade Range.

With this proposal, Quote Exhaust will no longer occur; after trading with Market Maker 1's quote, the remainder of the Public Customer Market Order will go straight into its first ATR Posting Period, displaying at the ATR Threshold of 1.93 – it will no longer first display at the Quote Exhaust reference price of 2.00, but the remainder of the behavior will remain the same due to applicability of ATR.

Similar to ISE, GEMX and MRX, the Exchange proposes to amend Options 3, Section 6 to rename it "Collection and Dissemination of Quotes" and adopt a rule identical to ISE, GEMX and MRX Options 3, Section 6. The proposed new rule will specify, as is the case today, that each Market Maker shall communicate to the Exchange its bid and offers in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act and the Rules of the Exchange.[41] Further, as is the case today, the Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available to Public Customer Orders, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act.[42]

The Exchange proposes in Options 3, Section 6(c) to adopt rules around unusual market conditions. Today, Options 3, Section 6(c) notes that "when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official." The Exchange proposes to continue to provide that in proposed Options 3, Section 6(c)(1),

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41 See proposed Phlx Options 3, Section 6(a).

42 See proposed Phlx Options 3, Section 6(b).

> An Exchange official designated by the Board shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be "fast." When a market for an option is declared fast, the Exchange will provide notice that its quotations are not firm by appending an appropriate indicator to its quotations.

Further, the Exchange proposes to state in proposed Options 3, Section 6(c)(2) that if a market is declared fast, designated Exchange officials shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Options 3, Section 8; (ii) suspend the minimum size requirement of Options 2, Section 5(c)(1); or (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market. Today, Options 3, Section 9(b) provides certain manual trading halt authority deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

Proposed Options 3, Section 6(c)(3) provides that the Exchange will monitor the activity or conditions that caused a fast market to be declared, and a designated Exchange official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a designated Exchange official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations. Finally, the Exchange proposes to state in Options 3, Section 6(c)(4) that if the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then a designated Exchange official shall halt trading in a class, or classes so affected. Today, ISE, GEMX and MRX have the same authority in Options 3, Section 6(c)(3) to protect those markets in the event of unusual market conditions. The Exchange believes that it should be able to manage trading on Phlx in the same manner as ISE, GEMX and MRX in the event of unusual market conditions.

Options 3, Section 7

Phlx proposes to align its order types to those of ISE, GEMX and MRX Options 3, Section 7 and utilize the same numbering as those markets.[43]

Phlx proposes to relocate Options 3, Section 7(f)[44] to the first paragraph of Options 3, Section 7.

Market Orders

The Exchange proposes to amend the description of Market Orders. Today, Options 3, Section 7(b)(1) states, "A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Lead Market Makers, Market Makers and Off-Floor Broker-Dealers may not submit Market Orders." The Exchange proposes to amend the definition of Market Orders to introduce a cancel timer feature, which will allow member organizations to designate Market Orders that do not execute after a certain period of time to be cancelled back to the member organization. Specifically, the Exchange proposes to add that member organizations can designate their Market Orders not executed after a pre-established period of time, as established by the Exchange,[45] will be

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43 The Exchange also proposes to separately file rule changes related to Complex Orders, Qualified Contingent Cross Orders and auctions. The Exchange notes that those filing will also add order types to Options 3, Section 7 to mirror ISE, GEMX and MRX Options 3, Section 7 order types.

44 Current Phlx Options 3, Section 7(f) states, Orders may not be unbundled, nor may a firm solicit a customer to unbundle an order for this purpose.

45 The Exchange will initially set the pre-established period of time at 4 seconds, identical to BX.

cancelled back to the member organization once an options series has opened for trading. Nasdaq BX, Inc. currently has an identical timer feature for BX Market Orders.[46] Similar to BX, the proposed timer would be available once the intra-day trading session begins for an options series, as the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process.[47] In particular, the Exchange would cancel orders (if consistent with the member organization's instructions) if an options series has not opened before the conclusion of the opening delay timer.[48] As such, the Exchange is proposing that the pre-established period of time for the proposed timer feature would commence once the intra-day trading session begins for that options series. In other words, while the Opening Process is on-going, and the intra-day trading session has not commenced, the pre-established period of time for the proposed timer feature would not commence. Further, the Exchange proposes to note that Market Orders on the order book would be immediately cancelled if an options series is halted, provided the member organization designated the cancellation of Market Orders.[49] The proposed changes are intended to make clear that in the event there is a Market Order in a zero bid market while the Market Order was resting on the order book, the Member has an option to designate the cancellation of that Market Order pursuant to the proposed cancel timer feature. In this case, those Market Orders to sell, which were

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This specification will be set out in the ISE System settings document on a publicly available website. The Exchange would issue an Options Trader Alert notifying all member organizations if it determined to amend that timeframe.

46 See BX Options 3, Section 7(a)(5).

47 See Phlx Options 3, Section 8 for the Opening Process.

48 See Phlx Options 3, Section 8(k).

49 Member organizations may make the designation to cancel their Market Orders through their FIX and port settings.

resting on the order book, would immediately cancel upon a trading halt instead of waiting until the end of the pre-established timer period. ISE, GEMX, MRX and BX also has identical language governing its Market Orders today.[50] Like ISE, GEMX, MRX and BX, the Exchange believes that the proposed intra-day timer feature will provide additional flexibility for member organizations that wish to cancel unexecuted Market Orders after a certain period of time.

As noted above in Options 2, Section 6, the Exchange would no longer prohibit Market Makers (and Lead Market Makers)[51] from entering Market Orders. In addition, the Exchange would no longer prohibit an Off-Floor Broker Dealer[52] from entering a Market Order for the same reasons as expressed above in Options 2, Section 6.[53] All Market Makers, including away market makers, are restricted to a total number of contracts executed during a quarter in options series to which it is not appointed of twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series as all options markets impose this restriction on market makers. The Exchange does not believe there is any reason to restrict Off-Floor Broker Dealers from entering Market Orders in options classes, rather, the Exchange

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50 See ISE, GEMX and MRX Options 3, Section 7(a) and BX Options 3, Section 7(a)(5).

51 As explained above, Market Makers is a broad term that covers Lead Market Makers so both terms are not needed.

52 Phlx Options 1, Section 1(b)(33) provides, [t]he term "Off-Floor Broker-Dealer Order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

53 Current Phlx Options 3, Section 7(e) provides that An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f).

proposes to permit all member organizations to be able to enter Market Orders as is the case on The Nasdaq Options Market LLC ("NOM"), BX, ISE, GEMX and MRX

Limit Orders

The Exchange proposes to relocate "Limit Orders" from current Options 3, Section 7(b)(2) to proposed Options 3, Section 7(b) without change.[54] The Exchange proposes to define three types of Limit Orders similar to ISE, GEMX and MRX. First, the Exchange proposes to define a "Marketable Limit Order" as a Limit Order to buy (sell) at or above (below) the best offer (bid) on the Exchange. Next, the Exchange proposes to define a Fill-or-Kill Orders as a Limit Order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled. Finally, the Exchange proposes to relocate an Intermarket Sweep Order from current Options 3, Section 7(b)(3) to proposed Options 3, Section 7(b)(3) with some additions. The Exchange proposes to reorder some sentences to closely resemble ISE, GEMX and MRX Options 3, Section 7(b)(3). The Exchange proposes to add an additional sentence to make clear that ISOs must have a TIF designation of IOC. Additionally, the Exchange proposes to define the "regular order book" as the "single-leg order book."

All-or-None Orders

The Exchange proposes to relocate the All-or-None Orders from current Options 3, Section 7(b)(5) to proposed Options 3, Section 7(c) and amend it. Today, Phlx restricts All-or-None Orders to be entered only by Public Customers. At this time, the Exchange proposes to permit any member organization to submit an All-or-None Order

[54] Phlx Options 3, Section 7(b)(2) states, A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

similar to ISE, GEMX, and MRX Options 3, Section 7(c). The Exchange would not apply the Acceptable Trade Range protection in Options 3, Section 15(a) to All-Or-None Orders, similar to other orders. Finally, similar to ISE, GEMX and MRX, the Exchange proposes to modify All-or-None Orders so that they would execute against multiple, aggregated orders if the executions would occur simultaneously. Additionally, as is the case today, an All-or-None Order would not be submitted during the Opening Process similar to any other order that does not rest as the there is no order book during the Opening Process.

Stop Orders

The Exchange proposes to relocate the Stop Order description from Options 3, Section 7(b)(4)[55] to proposed Options 3, Section 7(d) and (e). Today, Phlx's Stop Order may be a Limit or Market Order. Also, the Stop Order may not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Phlx restricts Lead Market Makers, Maker Makers, and Off-Floor Broker-Dealers from entering Stop Market Orders. At this time, the Exchange proposes to amend its Stop Order to mirror the order type that is in use on ISE, GEMX and MRX at Options 3, Section 7(d) and (e). First, Phlx will permit all member organizations to utilize a Stop

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55 Phlx Options 3, Section 7(b)(4), states, A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Lead Market Makers and Maker Makers may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order. (A) A Stop-Limit Order to buy becomes a Limit Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A Stop-Limit Order to sell becomes a Limit Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price. (B) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price. (C) A Stop Order is a non-displayed, contingency order until elected.

Order and Stop Limit Order and not restrict Maker Makers (including Lead Market Makers) as noted in the discussion of Options 2, Section 6 above. Further, the category of "Off-Floor Broker-Dealer Orders" is being eliminated as described below with this rule change. Second, the Exchange will not separately specify a Stop Market Limit Order, rather it will describe an elected Stop Order as a Market Order. The Exchange proposes to describe a Stop Order as an order that becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders may only be entered through FIX. The rule text that currently provides, "A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order" will be relocated to the ended of the sentence. The Exchange proposes to provide that a Stop Limit Order is an order that becomes a Limit Order when the stop price is elected. A Stop Limit Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Limit Order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. The Exchange is removing the rule text that states that a Stop Order is a non-displayed, contingency order until elected because the proposed rule text makes clear that the Stop Order does not become a Market or Limit Order until it is elected. Finally, similar to a Stop Order, a Stop Limit Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order.

Cancel or Replace Orders

The Exchange proposes to relocate the Cancel and Replace Order description from Options 3, Section 7(b)(7)[56] to proposed Options 3, Section 7(f). The Exchange proposes to modify the Cancel and Replace Order so that it mirrors the functionality on ISE, GEMX and MRX at Options 3, Section 7(f). The Exchange would state at the beginning that "Cancel and Replace Orders shall mean" to conform the text to the other changes to the order types. The Exchange would remove the phrase "with new terms and conditions" and instead note that the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, which the Exchange is adopting as noted further below, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. This new text specifically notes that amending the price or increasing the size will result in a loss of priority. Further the Exchange proposes to state that if the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g., Options 3, Section 15(a)(1) and Options 3, Section 15(a)(2)) the existing order shall be cancelled and not replaced. Today, the Exchange utilizes the simple order checks in Options 3, Section 15(a)(1), Order Price Protection, and Options 3, Section 15(b)(1), Acceptable Trade

56 Phlx Options 3, Section 7(b)(7) provides, A Cancel-Replacement Order is a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will result in a loss of priority.

Range, for each order entered into the System, including replacement orders. This additional language brings more clarity to the rule text.

Reserve Orders

The Exchange proposes to adopt a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g). As proposed, a Reserve Order would be a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order would be available for potential execution against incoming marketable orders. A non-marketable Reserve Order would rest on the order book. The displayed portion of a Reserve Order would be ranked at the specified limit price and the time of order entry. The displayed portion of a Reserve Order would trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders. Reserve Orders would be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the member organization. When the displayed portion of a Reserve Order is decremented, either in full or in part, it would be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion would include the previously displayed portion. Upon any refresh, the entire displayed portion would be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion would trade in accordance with Options 3, Section 10(a)(1)(A) for

Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders. The initial non-displayed portion of a Reserve Order rests on the order book and would be ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion as described in proposed Options 3, Section 7(g)(5). The non-displayed portion of any Reserve Order would be available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order would trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders. The Exchange believes that the adoption of this new order type will allow all member organizations the ability to trade their orders with displayed and non-displayed portions similar to ISE, GEMX and MRX Options 3, Section 7(g).

Attributable Orders

The Exchange proposes to adopt Attributable Orders at Options 3, Section 7(h) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(h). An Attributable Order would be a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. The Exchange will issue an Options Regulatory Alert specifying the Systems for which the Attributable Order type shall be available. The Exchange believes that the availability of this order type will allow member organizations the ability to display their firm identification if they elect to do so.

Directed Orders[57]

The Exchange proposes to relocate the reference to Directed Orders currently in Options 3, Section 7(b)(11)[58] to Options 3, Section 7(l) without change. The Exchange proposes to reserve Options 3, Section 7(m).

Add Liquidity Orders

The Exchange proposes to adopt an Add Liquidity Order ("ALO") at Options 3, Section 7(n) that is identical to ISE, GEMX and MRX Options 3, Section 7(n). ALOs are limit orders that will only be executed as a "maker" on the Exchange. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Member organizations may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock

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[57] The Exchange is skipping certain letters in this rule to account for other rule changes that will be filed that impact Options 3, Section 7(i), (j), (k), (t) and (v). Where the Exchange is reserving letters, it is to align to the lettering in ISE, GEMX and MRX Options 3, Section 7.

[58] Phlx Options 3, Section 7(b)(11) provides, A Directed Order is as described in Options 2, Section 10.

or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d).[59] An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10 which governs priority and allocation. Add Liquidity Orders may only be submitted when an options series is open for trading. This order type would give market participants greater control over the circumstances in which their orders are executed.

Below are some examples of the Add Liquidity Order.

Add Liquidity Only Order Re-Price Example

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) × \$1.00 (10)
- ABBO \$0.85 × \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00
  - Reprices on book to \$0.95
  - Displays on \$0.95 bid, which is National Best displayed bid with a quantity of 5
- Order to sell 10 arrives at \$0.90
  - 5 execute with Firm A @ \$0.95
  - 5 execute with Market Maker A @ \$0.90
  - NBBO updates back to \$0.90 × \$1.00

59 Phlx Options 3, Section 5(d) provides, An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed, and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

Add Liquidity Only Reject Example

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote \$0.90 (10) × \$1.00 (10)
- ABBO \$0.85 × \$1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at \$1.00
    - Order is rejected back to sender because the sender configured the order for reject instead of re-price

The Exchange notes that it proposes to reserve Options 3, Section 7(o), (p), (q), (r), (s) and (t).

Opening Sweep

The Exchange proposes to relocate the Opening Sweep order type at Options 3, Section 7(b)(6)[60] to Options 3, Section 7(u) and amend it. The Exchange proposes to replace references to "Lead Market Makers" and "Market Makers" to simply "Market Makers" as all Lead Market Makers are also Market Makers.[61] Additionally, the Exchange proposes to note that with the technology migration, that Opening Sweeps would be subject to the new Market Wide Risk Protection proposed in Options 3, Section 15. The Exchange is proposing to add a Market Wide Risk Protection to its rules with this proposal as described below. Finally, the Exchange proposes to add a precise

60 Phlx Options 3, Section 7(b)(6) provides, An Opening Sweep is a one-sided order entered by a Lead Market Maker or Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8 and will be cancelled upon the open if not executed.

61 See Phlx Options 1, Section 1(b)(28) which defines a Market Maker as a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

citation to the Opening Process in the last sentence of Options 3, Section 7(u) by including "(b)(i)" after Options 3, Section 8.

The Exchange proposes to reserve Options 3, Section 7(x) and (y).

PIXL Order

The Exchange proposes to relocate the description of a PIXL Order from Options 3, Section 7(b)(9)[62] to Options 3, Section 7(y) without substantive change.[63] The Exchange proposes to populate Supplementary Material .01 to Options 3, Section 7 in a separate rule change.

Time in Force Provisions

The Exchange proposes to relocate the rule text concerning Time in Force from current Options 3, Section 7(c) to Supplementary Material .02 to Options 3, Section 7 without change. Phlx Options 3, Section 7(c) provides, "Time in Force or "TIF." The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:"

Day Order

The Exchange proposes to relocate Day Order from current Options 3, Section 7(c)(1)[64] to Supplementary Material .02(a) to Options 3, Section 7 and make minor amendments to the description. The Exchange proposes to amend the first sentence which states, "If not executed, an order entered with a TIF of "Day" expires at the end of the day on which it was entered." The Exchange proposes to instead provide, "An order

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62 Phlx Options 3, Section 7(b)(9) provides, A PIXL Order is as described in Options 3, Section 13.

63 The Exchange proposes to remove "A" before the words "PIXL Order."

64 Phlx Options 3, Section 7(c)(1) provides, If not executed, an order entered with a TIF of "Day" expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

to buy or sell entered with a TIF of “DAY,” which, if not executed, expires at the end of the day on which it was entered.” The Exchange is rewording the rule text of Day Order to mirror the text in ISE, GEMX and MRX Supplementary Material .02(a) to Options 3, Section 7. The Exchange notes that Phlx does not have the Precise or OTTO protocols today.

Good-Till-Cancelled

The Exchange proposes to relocate Good Till Cancelled from Options 3, Section 7(c)(4)[65] to Supplementary Material .02(b) to Options 3, Section 7 and amend the description. Currently, Supplementary Material .02(b) to Options 3, Section 7 provides that a Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close. The Exchange proposes to instead provide that an order to buy or sell entered with a TIF of “GTC” remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The first sentence of the current text is simply worded differently. Also, all order types are available throughout the trading day unless specified otherwise. The Exchange proposes to add language concerning a corporate event, noting that GTC orders are canceled in the

[65] Phlx Options 3, Section 7(c)(4) provides, A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

event of a corporate action that results in an adjustment to the terms of an option contract. This is also true today. The Exchange is adding this rule text to clarify the current System behavior. The proposed GTC description is identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(b) to Options 3, Section 7. There is no System change as a result of the change to the description of the GTC order.

Good-Till-Date

The Exchange proposes to adopt a new TIF designation, Good-Till-Date or "GTD" at Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of "GTD," which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The Exchange believes this additional TIF will provide member organizations with additional opportunities when trading on Phlx.

Immediate-or-Cancel

The Exchange proposes to relocate Immediate-or-Cancel from Options 3, Section 7(c)(2)[66] to Supplementary Material .02(d) to Options 3, Section 7 and amend the

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[66] Phlx Options 3, Section 7(c)(2) provides, An Immediate-or-Cancel ("IOC") Order entered with a TIF of "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. (A) Orders entered with a TIF of IOC are not eligible for routing. (B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a Market Maker or Lead Market Maker through SQF is not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively, or Size Limitation within Options 3, Section 16(e). (C) Orders entered into the Price Improvement XL ("PIXL") Mechanism and Qualified Contingent Cross ("QCC") Mechanism 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.

description. Supplementary Material .02(d) to Options 3, Section 7 currently states, "An Immediate-or-Cancel ("IOC") Order entered with a TIF of "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled." The Exchange proposes a non-substantive amendment to instead provide, "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." The Exchange proposes to relocate the rule text in Options 3, Section 7(c)(A) to Supplementary Material .02(d)(1) to Options 3, Section 7 without change. The Exchange proposes to relocate the rule text in Options 3, Section 7(c)(B) to Supplementary Material .02(d)(2) to Options 3, Section 7 and remove the reference to "Lead Market Maker" to simply "Market Makers" as all Lead Market Makers are also Market Makers.[67] The Exchange proposes to amend "SQF is not subject to" to "the SQF protocol will not be subject to". The Exchange proposes to add an "(A)" before Order Price Protection, and change "or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively, or Size Limitation within Options 3, Section 16(e)" to "and Size Limitation Protection as defined in Options 3, Section 15(a)(1), (a)(2), and (b)(2) respectively, for single leg orders." These modifications are non-substantive and simply bring more clarity to the rule text. The Exchange proposes to relocate the rule text in current Phlx Options 3, Section 7(c)(2)(C) in a separate rule change. These changes align with rule text in ISE, GEMX and MRX Supplementary Material .02(d) to Options 3, Section 7.

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67 See Phlx Options 1, Section 1(b)(28) which defines a Market Maker as a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

Opening Only

The Exchange proposes to relocate Opening Only from Options 3, Section 7(c)(3)[68] to proposed Supplementary Material .02(e) of Options 3, Section 7. The Exchange is proposing to add Phlx's new Market Wide Risk Protection to the list of risk protections that would apply to Opening Only. The Exchange proposes a new Market Wide Risk Protection as explained below in this proposal. Also, the Exchange proposes to capitalize "orders" in the last sentence.

Order Entry Protocols

The Exchange proposes to amend the rule text currently in Supplementary Material .03(a)(i) of Options 3, Section 7. With respect to the FIX protocol, within proposed Supplementary Material .03(A) of Options 3, Section 7,[69] the Exchange proposes to add "post trade allocation messages" to the list of features that will be included in FIX. A post trade allocation message allows market participants to specify how an order should be subdivided among one or more accounts.[70] Today, ISE, GEMX and MRX provide post trade allocation messages through FIX.[71] The Exchange does not propose to amend the SQF protocol within Supplementary Material .03(B) of Options 3,

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68 Phlx Options 3, Section 7(c)(3) provides, An Opening Only ("OPG") order is entered with a TIF of "OPG". This order can only be executed in the Opening Process pursuant to Options 3, Section 8. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route.

69 Phlx Supplementary Material .03(A) of Options 3, Section 7 provides, "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 and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications."

70 For example, a member may specify the account(s) and their respective order quantities which make up the order.

71 See ISE, GEMX and MRX Supplementary Material .03(a)(i) of Options 3, Section 7.

Section 7[72] or the FBMS protocol within Supplementary Material .03(C) of Options 3, Section 7.[73]

Routing

The Exchange proposes to relocate the rule text at Options 3, Section 7(d)[74] to Supplementary Material .04 of Options 3, Section 7 without change.

Options 3, Section 8

The Exchange proposes to amend Options 3, Section 8, Options Opening Process, at Options 3, Section 8(b) to note the eligible interest that will be included in the Opening Process. The Exchange currently provides at Options 3, Section 8(b) that, "Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps, and

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72 Phlx Supplementary Material .03(A) of Options 3, Section 7 provides, "Specialized Quote Feed" or "SQF" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from 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) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2) and (b)(2), respectively.

73 Phlx Supplementary Material .03(C) of Options 3, Section 7 provides, Options Floor Based Management System or ("FBMS") is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible pursuant to Options 8, Section 22(a), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Options 8, Sections 28(e) and 29. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.

74 Phlx Options 3, Section 7(d) provides, Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX only.

orders. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. Non-SQT Market Makers may submit orders." The Exchange proposes to note that "Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps, and orders, *including Opening Only Orders, but excluding orders with a Time-In-Force of "Immediate or Cancel" and Add Liquidity Orders*. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. *The displayed and non-displayed portions of the Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process.* Non-SQT Market Makers may submit orders."[75] The Exchange would exclude Add Liquidity Orders and consider Reserve Orders (displayed and non-displayed portions) for execution in the Opening Process as well as when considering the Opening Price. The Exchange proposes to amend the rule text to note how those order types are accepted by the System for processing during the Opening Process. The proposed eligibility of these orders mirror ISE, GEMX and MRX Options 3, Section 8(b).

Also, similar to ISE, GEMX and MRX Options 3, Section 8(g), the Exchange proposes to account for the addition of Reserve Orders with respect to the Potential Opening Price[76] in Phlx Options 3, Section 8(h). The Exchange notes that to calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps *and displayed and non-displayed portions of Reserve Orders*) for the option series and identify the price at which the maximum

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75 Today, Opening Only Orders are eligible for the Opening Process but not Immediate or Cancel Orders.

76 The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

number of contracts can trade ("maximum quantity criterion"). The addition of this rule text will make clear the manner in which the System will handle a Reserve Order during the Opening Process.

The Exchange proposes to amend Options 3, Section 8(h)(A), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price. Today, Phlx Options 3, Section 8(h)(A) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. The Exchange proposes to no longer round in the direction of the previous trading day's closing price, rather it would round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation with this technology migration. The proposed changes are intended to simplify and bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series. This proposed change will mirror the functionality on ISE, GEMX and MRX.[77]

The Exchange further proposes to amend Phlx Options 3, Section 8(j)(7), which currently describes the determination of Opening Quote Range ("OQR") boundaries in

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[77] See ISE, GEMX and MRX Options 3, Section 8(g).

certain scenarios.[78] Specifically, the Exchange proposes to amend the last sentence of Options 3, Section 8(j)(7) which currently states, "The System will route routable Public Customer and Professional interest pursuant to Options 3, Section 10(a)(1)(A)." The Exchange proposes to remove the current limitation that only allows routable Public Customer[79] and Professional[80] interest to route during the Opening Process. Instead, all routable market participant interest will be allowed to route to align the Exchange's opening functionality with ISE, GEMX and MRX Options 3, Section 8, which does not limit orders that may route in the Opening Process. Specifically, the Exchange proposes to remove the reference to Public Customer and Professional to allow all routable interest to route in the Opening Process. The Exchange proposes to update the cross-cite to Phlx Options 3, Section 10(a)(1)(A), that currently points to the Public Customer priority overlay. Instead, the Exchange would amend the citation to point to the more general priority rule in Phlx Options 3, Section 10(a).

Similar to other changes noted herein, the Exchange proposes to amend Phlx Options 3, Section 8(k)(C)(6) to note how Reserve Orders will be handled in the Opening Process for purposes of execution. The Exchange proposes to state, "The System will execute orders at the Opening Process that have contingencies *(such as without limitation, Reserve Orders)* and non-routable orders, such as a "Do Not Route" or "DNR"

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78 OQR is an additional type of boundary used in the Opening Process, and is intended to limit the opening price to a reasonable, middle ground price, thus reducing the potential for erroneous trades during the Opening Process.

79 The term "Public Customer" means a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Options 1, Section (b)(45). See Option 1, Section 1(b)(46).

80 The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). Member organizations must indicate whether orders are for Professionals. See Option 1, Section 1(b)(45).

Orders, to the extent possible. This rule text will add transparency to Phlx's rule text, and mirror rule text in ISE, GEMX and MRX Options 3, Section 8(j)(6). Additionally, the Exchange proposes an amendment to the last sentence of Phlx Options 3, Section 8(k)(C)(6) which currently states, "The System will only route non-contingency Public Customer and Professional orders." In line with proposed amendments to permit the System to route all market participant interest, thereby removing the limitation that only allows routable Public Customer and Professional interest to route, and in line with the addition of rule text related to the handling of Reserve Orders, the Exchange proposes to instead provide, "The System will only route non-contingency orders, except Reserve Orders may route up to their full volume." With this proposal, Phlx would have the following contingency orders that will not route: a Stop Order, an All-or-None Order and a Fill-or-Kill Order.

The Exchange proposes to amend current Phlx Options 3, Section 8(k)(D) to mirror rule text in ISE, GEMX and MRX Options 3, Section 8(j)(6)(A) which states, "The System will cancel any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening." Today, the Phlx System will cancel any order or quote priced through the Opening Price. Also, today, all other interest will be eligible for trading after the Opening Process and will remain on the order book. The Exchange believes that this rule text will bring greater transparency to Phlx's Opening Process.

Finally, the Exchange proposes to amend rule text in the Opening Process Cancel Timer at Phlx Options 3, Section 8(l). With the retention of the "Good-Till-Cancel Order" and adoption of the "Good-Till-Date Order," the Exchange proposes to amend the order types in the last sentence of Options 3, Section 8(l) for consistency.

Options 3, Section 9

The Exchange proposes to amend Phlx Options 3, Section 9, Trading Halts. Specifically, the Exchange proposes to amend Options 3, Section 9(d)(3) to amend the manner in which a Stop Order will be treated during a trading halt. The Exchange proposes to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3). Today, the rule text notes that "[a]fter the opening, the Exchange shall elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify member organizations of the reason for such rejection." The Exchange proposes to amend the rule text to instead provide, "After the Opening Process, if a Stop Order is elected, as defined in Options 3, Section 7(d) because they become Market Orders, the System shall cancel them back and notify market participants of the reason for such cancellation." Stop Orders would become elected as provided for in proposed Options 3, Section 7(d).[81] The Exchange currently cites Phlx Options 8, Section 32 erroneously, as those rules refer to Stop Order types on the trading floor. The Exchange proposes to instead cite proposed new Options 3, Section 7(d) which describes the electronic Stop Order type. The Exchange proposes to note that the System cancels orders. Also, the Exchange proposes to change the word rejection to cancellation because the order would be cancelled not rejected. The Exchange also proposes to amend Phlx Options 3, Section 9(f) which currently states, "During a halt, the Exchange will maintain existing orders on the book (but not existing

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81 As proposed in Options 3, Section 7(d) a Stop Order becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

quotes), except as noted in Options 5, Section 4, accept orders and quotes, and process cancels. During a halt, existing quotes are cancelled and auction orders and auction responses, as well as Crossing Orders, are rejected." The Exchange notes that this exception in Phlx Options 3, Section 9(f) to potential exceptions to this rule within Options 5, Section 4 is not necessary as the Exchange follows the trading halt processes in Options 3, Section 9. Options 5, Section 4 does not change the manner in which Options 3, Section 9 operates.

Options 3, Section 10

The Exchange proposes to amend Phlx Options 3, Section 10, Electronic Execution Priority and Processing in the System. Today, generally, Phlx's System rounds down. With this technology migration, the Exchange proposes to amend Phlx's rounding methodology to round up to the nearest integer. Today, ISE, GEMX and MRX Options 3, Section 10(c) provide for a Size Pro-Rata allocation with the same rounding methodology as proposed for Phlx. The Exchange is opting to round up and not down, uniformly, and disclose that rounding methodology directly within Options 3, Section 10, so that all member organizations are aware of the rounding methodology that would be utilized by the System. In addition, if the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because the System is rounding up, the provisions which describe allocations for remainders of less than one contract are being deleted because they cannot mathematically occur. The Exchange believes that rounding up uniformly is consistent with the Act because it provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. By way of example,

Broker/Dealer Order to Buy 20 @ 1.00

Firm Order to Buy 10 @ 1.00

Customer Order to Sell 7 @ 1.00

Today, this order would allocate as follows: 4 contracts to the Broker/Dealer Order (BD receives 20/30 of the incoming 7 = 4.667, rounds down to 4 contracts)

Today, this order allocates 2 contracts to the Firm Order (Firm receives 10/30 of the incoming 7 = 2.33, rounds down to 2 contracts)

Today, this order allocates 1 contract (the odd lot) to the Broker/Dealer Order

With this proposal, allocation will round up instead of down, meaning the Broker/Dealer order would instead be allocated 5 contracts and the Firm order would receive the remaining 2 contracts.

To that end, the Exchange proposes to amend Options 3, Section 10(a) to instead provide that "If the result is not a whole number, it will be rounded up to the nearest whole number. Size Pro-Rata Priority shall mean that resting orders and quotes in the order book are prioritized according to price. If there are two or more resting orders or quotes at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price. Pursuant to Size Pro-Rata, if there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining. The Exchange is proposing to allocate similar to ISE, GEMX and MRX Options 3, Section 10(c). The Size Pro-Rata allocation divides the remainder proportionally among the non-displayed interest. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders or quotes. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest on the single-leg order book has been executed. The Odd Lot Allocation within Phlx Options 3, Section 10(a)(1)(F) is also being removed because the Exchange would no longer utilize the random assignment discussed in that paragraph, rather the Exchange would simply round up any allocation which does not result in a whole number, and thus would have no Odd Lot contracts remaining to be allocated.

The Exchange proposes to amend Phlx Options 3, Section 10(a)(1)(B) to change a reference to “DROT” to “Directed Market Maker” for consistency.

The Exchange proposes to amend Phlx Options 3, Section 10(a)(1)(C) to provide that “After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Options 2, Section 10, provided the Directed Market Maker’s quote is at the better of the internal PBBO or the NBBO, the Directed Market Maker will be afforded a participation entitlement. This participation entitlement will be considered after the Opening Process.” Today, a Directed Market Maker’s quote or market maker order must be at the better of the internal PBBO or NBBO. The Exchange believes that similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(C), that Market Maker orders should not be considered when offering Directed Market Maker priority enhancements. Phlx Options 2, Section 10 provides that when the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Lead Market Maker, SQT or RSQT is *quoting* at the better of the internal PBBO or the NBBO, the Directed Order shall be automatically executed and allocated in accordance with Options 3, Section 10(a)(1)(C). The Exchange proposes to only offer the Directed Market Maker enhanced allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not its order. Consistent with this change, the Exchange proposes to remove "or order(s)" after quote throughout Options 3, Section 10(a)(1)(C). Consistent with its proposal to round up, the Exchange proposes to remove the last sentence of Options 3, Section 10(a)(1)(C) that provides, "If rounding would result in an allocation of less than one contract, the Directed Market Maker shall receive one contract."

The Exchange proposes to amend the Phlx's Entitlement for Orders of 5 contracts or fewer at Options 3, Section 10(a)(1)(D) to align with ISE, GEMX and MRX Options 3, Section 10(a)(1)(D). The Exchange proposes to amend the last sentence to provide, "On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over 40%." Today, Phlx's percentage for the reduction is 25%. The Exchange believes that utilizing the higher percentage continues to restrict Lead Market Makers with respect to the percentage of the volume executed on Phlx that is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers. The Exchange will continue to evaluate the percentage on a quarterly basis. The Exchange monitors ISE, GEMX and MRX Lead Markets' orders for 5 contracts or fewer based on this percentage today and this has not raised any concerns. Finally, this proposal will align this percentage to 40% identical to ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) so that Market Makers have the same compliance across the Nasdaq affiliated exchanges.[82] Phlx notes that currently Lead Market Makers are not approaching the 25% threshold noted in Options 3, Section 10(a)(1)(D)(ii) related to the quarterly review of 5 contracts or fewer by the Exchange, which percentage is based on total volume executed. With this proposal, Phlx will monitor the frequency in which Lead Market Makers receive orders for 5 contracts or fewer. Specifically, the Exchange will review the proposed provision quarterly and will maintain the orders for 5 contracts or fewer at a level that will not allow these small size orders executed by Lead Market Makers to account for more than 40% of the volume executed on the Exchange. The Exchange does not believe the proposal raises any new or novel issues as other options exchanges also offer the same allocation for orders for 5 contracts or fewer.[83] The Exchange believes that providing this benefit offers Lead Market Makers an incentive for vigorous quoting since a Lead Market Maker must be quoting at the NBBO in order to receive the allocation. Incentivizing Lead Market Makers to provide liquidity on Phlx, in turn, provides greater opportunity for executions, tighter spreads, and better pricing for all member organizations. While the Commission has, in the past, been concerned about locking up

[82] BX also utilizes 40%. See Options 3, Sections 10(a)(1)(C)(1)(c) and 10(a)(2)(iii).

[83] See ISE, GEMX and MRX Options 3, Section 10(a)(1)(D).

larger portions of order flow from intra-market price competition, the Exchange believes that the enhancement would remain adequately balanced by the increased 40% threshold that limits the volume of orders of five contracts or fewer that are executed by Lead Market Makers to account for no more than 40% of the volume executed on the Exchange. The proposed increased limitation of 40% continues to strike a reasonable balance between encouraging vigorous price competition by Lead Market Makers and rewarding those Lead Market Makers for their unique duties. Lead Market Maker are also subject to the heightened quoting requirements specified in Options 2, Section 5(c)(2)(B). As noted above, consistent with proposed rounding, the Exchange proposes to remove the Phlx Odd Lot Allocation in Phlx Options 3, Section 10(a)(1)(F)[84] because Phlx will round up which would not result in remaining contracts to be allocated after rounding. There is no net benefit or negative to electing to round up versus utilizing any other method of rounding (down, banker's rounding, etc.) provided the rounding is handling uniformly and applied in the same manner to each trade executed by the System. The Exchange will uniformly apply its proposed rounding methodology, rounding up, to all transactions executed on Phlx. The Exchange also proposes to remove the reference to this paragraph at the end of Phlx Options 3, Section 10(a)(1)(D)(ii).

Similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(E), the Exchange proposes to account for Reserve Orders in proposed Phlx Options 3, Section 7(g)(3). The Exchange proposes to state that, "If there are contracts remaining after all Market Maker

[84] Phlx Options 3, Section 10(a)(1)(F) provides, [i]f there are contracts remaining after Market Maker Priority is applied, such contracts shall be allocated by randomly assigning all Market Makers (including the Lead Market Maker or Directed Market Maker) an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the Market Maker, is at the best price at which the order, quote or sweep is being traded.

interest has been fully executed, notwithstanding Options 3, Section 7(g)(3), such contracts shall be executed based on the Size Pro-Rata execution algorithm as described in Options 3, Section 10(a)." The Exchange proposes to cite to proposed Phlx Options 3, Section 7(g)(3) which provides that the displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders and this subparagraph (F) for non-Public Customer Orders. The displayed portion of a Reserve Order will be allocated the same as other order types. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders or quotes. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest on the single-leg order book has been executed. The proposed rule text related to allocation of a Reserve Order is identical to ISE, GEMX and MRX at Options 3, Section 10(g). The Exchange also proposes to add a citation to Options 3, Section 10(a) in this paragraph for clarity.

Finally, the Exchange proposes to amend Phlx Options 3, Section 10(a)(2) to capitalize "market maker" and remove the Market Maker order at the end of this paragraph because, as proposed above, the Exchange proposes to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order.

Options 3, Section 15

The Exchange proposes to amend Options 3, Section 15, Simple Order Risk Protections.

Order Price Protection

The Exchange proposes to amend its Order Price Protection ("OPP," also known as the fat finger check) in Phlx Options 3, Section 15(a)(1) to align certain features with the OPP functionality currently offered by its affiliate, NOM and BX. The Exchange's proposal will introduce an alternative method to determine parameters for this risk protection. The Exchange notes that OPP is intended to prevent erroneous executions of orders on Phlx. This proposal seeks to further this objective by introducing a fixed dollar threshold that, in combination with the existing percentage threshold, will provide a modified approach to order rejection based on the price of the order.

The Exchange's current OPP feature prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but currently does not apply to Stop-Limit Orders, Intermarket Sweep Orders or Complex Orders. Today, OPP is operational each trading day after the opening until the close of trading, except during trading halts. OPP assists member organizations in controlling risk by checking each order, before it is accepted into the System, against certain parameters. Today, as set forth in Phlx Options 3, Section 15(a)(1)(B), OPP rejects incoming orders that exceed certain parameters according to the following algorithm:

> (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.
>
> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

With this technology migration, the Exchange proposes to expand the algorithm for OPP to introduce a fixed dollar threshold as an alternative to the percentage specified within the current rule. To effect this change, the Exchange proposes to amend Phlx Options 3, Section 15(a)(1)(B) to provide that OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

> (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
>
> (A) 50% through such contra-side Reference BBO; or
>
> (B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.
>
> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
>
> (A) 100% through such contra-side Reference BBO; or
>
> (B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.

The proposed alternative would permit for a range of prices to be executed where the incoming order is up to $1.00 from the Reference BBO. The parameters are identical to NOM and BX Options 3, Section 15(a)(1)(B). Similar to NOM and BX, the Exchange believes that utilizing the greater of a fixed dollar amount or percentage would expand the applicability of OPP while still providing a reasonable limit to the range where orders will be accepted. By implementing a functionality that applies the greater of a fixed dollar amount not to exceed $1.00 or a percentage, the Exchange would ensure that this protection would be able to accommodate all orders based on a determination of how far from the Reference BBO the order is priced.

The Exchange notes that certain securities in lower price ranges would not benefit from the application of a percentage as would securities with higher prices. For instance, the application of a 50% threshold to a $50 security would provide a rejection if a limit order was priced $75 or greater compared to a 100% threshold for a $0.02 security which would be rejected if a limit order was priced $0.04 or greater. As such, certain orders could be rejected under the current framework because the percentage threshold is applied to the contra-side of an incoming order, including in cases where the order is not erroneously priced. Below are additional examples to illustrate the application of the current and proposed rule:

Example: An option priced less than $1.00

For a penny MPV option with a BBO on Phlx of $0.01 x $0.02, consider that the configurable dollar amount is set to $0.05.

Current Rule: Reject buy orders of more than $0.04 bid if incoming order was less than $1.00, and it was more than 100% through the contra-side of the Reference BBO.

Proposed Rule: A buy order priced up to $0.07 ($0.02 offer + $0.05 configuration) would not be rejected because a configurable dollar amount from $0.00 to $0.05 would allow the order to be entered into the System for execution.

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

Example: An option priced greater than $1.00

For a penny MPV option with a BBO on Phlx of $1.01 x $1.02, consider that the configurable dollar amount is set to $0.60

Current Rule: Reject buy orders 50% through $1.02 - orders priced greater than $1.53 ($1.02 + $0.51).

Proposed Rule: A buy order priced up to $1.62 would not be rejected (this would be greater than 50% through 1.02).

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

As the above examples illustrate, the Exchange believes that securities in the lower price range could benefit by the proposed alternative method because the fixed amount provides for additional executions in certain situations where a percentage would reject an order that was intentional and not erroneous. This approach has been successful for NOM and BX in limiting erroneous executions while permitting intentional executions at reasonable prices, and the Exchange therefore proposes to adopt this approach for its options market as well. Similar to NOM and BX, the Exchange will post the configurable amount on its website and announce any changes to the amount in an Options Trader Alert.

The Exchange also proposes to add language similar to NOM and BX, which would provide the Exchange with discretion to temporarily deactivate OPP from time to time on an intra-day basis if it determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like NOM and BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO). Member organizations would be notified of intra-day OPP deactivation and any subsequent reactivation by the Exchange through the issuance of System status messages. Specifically, the Exchange proposes to add in Phlx Options 3, Section 15(a)(1)(A) that OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

Lastly, the Exchange proposes to amend Options 3, Section 15(a)(1) to remove the current exclusion of Intermarket Sweep Orders ("ISOs") and Complex Orders from the OPP rule. With the proposed amendment, OPP will apply to ISOs. With respect to ISOs, the intent of an ISO is to sweep as many prices as possible at the top of the book, so market participants need to cast as wide a net as possible to get those prices and fill the ISO. With the current OPP functionality, lower priced ISOs are more likely to get rejected for the reasons discussed above, and the Exchange determined at the time to exclude ISOs when adopting OPP. The proposal to add a fixed dollar threshold as an alternative OPP parameter, however, would provide more flexibility for more lower-priced options (including lower-priced ISOs) to get executed, and the Exchange therefore believes it is no longer necessary to exclude ISOs from OPP going forward. The Exchange further believes extending the protection to ISOs will promote the goal of limiting erroneous executions on the Exchange while permitting intentional executions at reasonable prices, and in general, extend more protections to ISOs. The Exchange is removing Complex Orders from the list of order types noted in Options 3, Section 15(a) because Section 15 applies to single-leg orders. The Exchange notes Complex Order risk protections in Options 3, Section 16. Finally, the Exchange proposes to add "until elected" after Stop-Limit Orders. Once the Stop-Limit Order is elected, the Exchange checks the Limit Order against the OPP bounds and will cancel the order back to the entering member if the order falls outside of the OPP bounds at the time of its election.

Market Wide Risk Protection

The Exchange proposes to introduce new order entry and execution rate checks identical to those on BX at Options 3, Section 15(a)(3) for Market Wide Risk Protection.

These new risk protections are designed to aid member organizations in their order risk management by supplementing current price reasonability checks with activity based order protections.[85] The Exchange proposes to detail these risk protections in proposed Options 3, Section 15(a)(3), entitled "Market Wide Risk Protection" or "MWRP". As proposed, the System will maintain one or more counting programs for each member organization that count orders entered and contracts traded on Phlx. Member organizations may use multiple counting programs to separate risk protections for different groups established within the member organization. The counting programs will maintain separate counts, over rolling time periods specified by the member organization for each count, of: (1) the total number of orders entered in the order book; and (2) the total number of contracts traded.[86]

All member organizations must provide parameters for the order entry and execution rate protections as described in (1) and (2) above. While the MWRP is mandatory for all member organizations, the Exchange is not proposing to establish minimum or maximum values for the order entry and execution parameters described above. The Exchange believes that this approach will give member organizations the flexibility needed to appropriately tailor the MWRP to their respective risk management needs. In this regard, the Exchange notes that each member organization is in the best position to determine risk settings appropriate for their firm based on the member organization's trading activity and business needs. In the interest of maintaining a fair

85 The Exchange currently provides members organizations with price protections for orders such as the OPP and the Market Order Spread Protection, which prevent limit orders and market orders from being executed at far away and potentially erroneous prices.

86 Phlx will also provide Market Wide Risk Protections for Complex Orders in a separate rule change.

and orderly market, however, the Exchange will also establish default values for each of these parameters that apply to member organizations that do not submit their own parameters for the MWRP, and will announce these default values in an Options Trader Alert to be distributed to member organizations. The Exchange notes that this approach is consistent with BX's current functionality and would provide Phlx member organizations with the flexibility to establish their own MWRP order entry and execution rate parameters. The Exchanges also notes that similar to BX, Phlx member organizations will have the discretion to establish the applicable time period for each of the counts maintained under the proposed MWRP, provided that the selected time period must be within the minimum and maximum duration of the applicable time period established by the Exchange and announced via an Options Trader Alert.[87]

Pursuant to proposed Phlx Options 3, Section 15(a)(3)(A) – (C), if, during the applicable time period, the member organization exceeds the thresholds that it has set for any of the order entry or execution counts described above on Phlx, the System will automatically reject all subsequent incoming orders entered by the member organization. Member organizations may also choose to have the System automatically cancel all of their existing orders on Phlx when the MWRP is triggered. The MWRP will remain engaged until the member organization manually notifies the Exchange to enable the acceptance of new orders. For member organizations that still have open orders on the order book that have not been cancelled pursuant to proposed subparagraph (B), the System will continue to allow those member organizations to interact with existing orders entered before the protection was triggered, including sending cancel order messages and

[87] See proposed Options 3, Section 15(a)(3). See also BX Options 3, Section 15(a)(3).

receiving trade executions for those orders. The action taken in proposed subparagraphs (A) – (C) is substantially similar to BX Options 3, Section 15(a)(3)(C), except that BX does not have complex order functionality.

The Exchange believes that the proposed MWRP will assist member organizations in better managing their risk when trading on Phlx. In particular, the proposed rule change provides functionality that allows member organizations to set risk management thresholds for the number of orders or contracts executed on the Exchange during a specified period. As discussed above, this is similar to how BX has implemented the MWRP, and the Exchange believes this functionality will likewise be beneficial for Phlx member organizations.

The examples below illustrate how the MWRP would work both for order entry and order execution protections:

<u>Example: Order Entry Rate Protection:</u>

Broker Dealer 1 ("BD1") designates an allowable order rate of 499 orders / 1 second.

@0 milliseconds, BD1 enters 200 orders. (Order total: 200 orders)

@450 milliseconds, BD1 enters 250 orders. (Order total: 450 orders)

@950 milliseconds, BD1 enters 50 orders. (Order total: 500 orders)

Market Wide Risk Protection is triggered on Phlx due to exceeding 499 orders in 1 second. All subsequent orders are rejected, and if BD1 has opted in to this functionality, all existing orders are cancelled. BD1 must contact the Exchange to resume trading.

<u>Example: Order Execution Rate Protection</u>

BD1 designates an allowable execution rate of 15,000 contracts / 2 seconds.

@0 milliseconds, BD1 receives executions for 5,000 contracts.

(Execution total: 5,000 contracts)

@600 milliseconds, BD1 receives executions for 10,000 contracts.

(Execution total: 15,000 contracts)

@1550 milliseconds, BD1 receives executions for 2,000 contracts.

(Execution total: 17,000 contracts)

Market Wide Risk Protection is triggered on Phlx due to exceeding 15,000 contracts in 2 seconds. All subsequent orders are rejected, and if BD1 has opted in to this functionality, all existing orders are cancelled. BD1 must contact the Exchange to resume trading.

Acceptable Trade Range

The Exchange proposes to amend the Acceptable Trade Range or "ATR" at Phlx Options 3, Section 15(b)(1) to note that ATR will not be available for All-or-None Orders. The Exchange notes that it would be difficult, from a technical standpoint, to apply this feature to those orders because their particular contingency makes it difficult to automate their handling.[88] In 2023, the Exchange filed a rule change[89] to amend Phlx's All-or-None Orders so that they may only be submitted as an Immediate-or-Cancel Order. As a result of the 2023 rule change, All-or-None Orders no longer rest on the order book and instead execute in their entirety or are cancelled if it cannot execute.[90] The Exchange should have noted at that time that because of that change that ATR would not be available for All-or-None Orders. The Exchange is proposing this rule text to note

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88 See Securities Exchange Act Release No. 79677 (December 22, 2016), 81 FR 96114 (December 29, 2016) (SR-ISEGemini-2016-17) (Notice of Filing of Proposed Rule Change To Amend Various Rules in Connection With a System Migration to Nasdaq INET Technology).

89 See Securities Exchange Act Release No. 98142 (August 16, 2023), 88 FR 57140 (August 22, 2023) (SR-Phlx-2023-34) (Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Phlx's All-or-None Order) ("SR-Phlx-2023-34").

90 Id.

similar to, ISE, GEMX and MRX Options 3, Section 15(a)(2)(A)(i) that the Acceptable Trade Range is not available for All-or-None Orders.[91]

Additionally, the Exchange proposes to account for quotes, in addition to orders in Options 3, Section 15(b)(1)(B) in the sentence that provides, "If the order/quote remains unexecuted after the Posting Period, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned)." In addition to orders, quotes are also subject to a request to be returned if posted at the outer limit of the Acceptable Trade Range. The addition of quotes clarifies the current System functionality.

The Exchange also proposes to remove the following phrase in Options 3, Section 15(b)(1)(B), "…unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Options 3, Section 6(a)(ii)(B)(3) will ensue, triggering a new Reference Price." As noted above in this proposal, the Exchange would no longer have the Quote Exhaust functionality. Therefore, the Exchange notes that a Quote Exhaust would not impact the ATR functionality as a result of its removal.

Anti-Internalization

The Exchange proposes to enhance the anti-internalization ("AIQ") functionality at Phlx Options 3, Section 15(c)(1), provided to Market Makers on the Exchange by giving member organizations the flexibility to choose to have this protection apply at the

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91 Similar to Phlx, ISE, GEMX and MRX All-or-None Orders are immediate or cancel. See ISE, GEMX and MRX Options 3, Section 7(c).

market participant identifier (i.e., existing functionality), at the Exchange account level, or at the firm level. The Exchange believes that this enhancement will provide helpful flexibility for Market Makers that wish to prevent trading against all quotes and orders entered by their firm, or Exchange account, instead of just quotes and orders that are entered under the same market participant identifier. Similar functionality is currently available on ISE, MRX and GEMX at Options 3, Section 15(a)(3)(A).

Currently, as provided in Phlx Options 3, Section 15(c)(1), the Exchange provides mandatory AIQ functionality that prevents Market Makers from trading against their own quotes and orders. In particular, quotes and orders entered by Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier. In such a case, the System cancels the oldest of the quotes or orders back to the entering party prior to execution. This functionality does not apply in any auction.

Today, this protection prevents Market Makers from trading against their own quotes and orders at the market participant identifier level. The proposed enhancement to this functionality would allow member organizations to choose to have this protection applied at the Market Maker identifier level (existing functionality), at the Exchange account level, or at the firm level. If member organizations choose to have this protection applied at the Exchange account level, AIQ would prevent quotes and orders from different market participant identifiers associated with the same Exchange account from trading against one another. Similarly, if the member organizations choose to have this protection applied at the member organization firm level, AIQ would prohibit quotes and orders from different market participant identifiers within the member organization firm from trading against one another. The Exchange believes that the proposed AIQ enhancement will provide member organizations with more tailored functionality that allows them to manage their trading as appropriate based on the member organizations' business needs. While the Exchange believes that some firms may want to restrict AIQ to trading against interest from the same Market Maker identifier (i.e., as implemented today), other firms may find it helpful to be able to configure AIQ to apply at the Exchange account level or at the firm level so that they are protected regardless of which Market Maker identifier the order or quote originated from. ISE, GEMX and MRX Options 3, Section 15(a)(3)(A) offer identical flexibility.

The examples below illustrate how AIQ would operate based on the market participant identifier level protection, the Exchange account level, or for member organizations that choose to apply AIQ at the firm level:

<u>Example: Market Participant Identifier Level</u>

ABC (market participant identifiers 123A & 555B) with AIQ configured at the market participant identifier level

123A Quote: $1.00 (5) x $1.10 (20)

555B Buy Order entered for 10 contracts at $1.10

555B Buy Order executes 10 contracts against 123A Quote. 123A and 555B are not prevented by the System from trading against one another because member organization ABC has configured AIQ to apply at the market participant identifier level. This is the same as existing functionality.

<u>Example: Exchange Account Level</u>

ABC (Account 999 with market participant identifiers 123A and 555B, and Account 888 with market participant identifier 789A) with AIQ configured at the Exchange account level.

123A Quote: $1.00 (5) x $1.10 (20)

789A Quote: $1.05(10) x $1.10 (20)

555B Buy Order entered for 30 contracts at $1.10

555B Buy Order executes against 789A Quote but 555B Buy Order does not execute against 123A Quote. AIQ purges the 123A Quote and the remaining contracts of the 555B Buy Order rests on the book at $1.10. 123A and 555B are not permitted trade against one another because member organization ABC has configured AIQ to apply at the Exchange account level. This is new functionality as the member organization has opted to have AIQ operate at the Exchange account level.

Example: Firm Level

ABC (Account 999 with market participant identifiers 123A and 555B, and Account 888 with market participant identifier 789A) with AIQ configured at the firm level.

123A Quote: $1.00 (5) x $1.10 (20)

789A Quote: $1.05(10) x $1.10 (20)

555B Buy Order entered for 30 contracts at $1.10

AIQ purges the 123A Quote and the 789A Quote and the 555B Buy Order rests on the book at $1.10. This is new functionality as the member organization has opted to have AIQ operate at the member organization firm level.

Quotation Adjustments

The Exchange proposes to amend Phlx Options 3, Section 15(c)(2), which sets forth the Exchange's "Rapid Fire" risk protection for quotes, to expand existing functionality by introducing optional Delta and Vega (as defined below) curtailment measures in addition to the current percentage-based and volume-based curtailments. The new curtailment measures will be functionally similar to the Delta and Vega thresholds currently offered by BX pursuant to Options 3, Section 15(c)(2). The proposed new Delta and Vega thresholds are optional risk protections. In connection with this change, the Exchange also proposes to restructure its rules regarding Rapid Fire and "Multi-Trigger" risk protections to more closely align with the BX's rule structure which has identical language to the proposed Phlx rule text.[92] With the proposed changes, Rapid Fire and Multi-Trigger will be triggered only when a Market Maker exceeds its designated thresholds similar to BX's approach, instead of when the thresholds are met or exceeded (as is currently the case).

Today, Rapid Fire is a risk protection that removes a Market Maker's quotes and SQF interest[93] in all options series of an underlying security from the marketplace when certain designated percentage-based or volume-based thresholds are met or exceeded. Market Makers are required to utilize either the percentage-based threshold or the volume-based threshold.[94] The Exchange proposes to amend the current Rapid Fire functionality to no longer remove IOC Orders submitted through SQF and continue to remove quotes. Today, ISE, GEMX, MRX and BX only remove quotes through SQF and do not remove IOC Order submitted through SQF.[95] The Exchange believes that

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92 As presently set forth in Phlx Options 3, Section 15(c)(2)(C), the Exchange's Multi-Trigger functionality removes Market Maker quotes in all options series in all underlying issues when a specified number of Rapid Fire thresholds are triggered over a chosen interval.

93 Today, the exchange's SQF protocol permits Market Makers to submit both quotes and Immediate-or-Cancel or "IOC" Orders to the Exchange. Phlx Supplementary Material .03(A) of Options 3, Section 7 provides, "Specialized Quote Feed" or "SQF" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from 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) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2) and (b)(2), respectively.

94 See Phlx Options 3, Section 15(c)(2)(G). In contrast, the Multi-Trigger threshold is optional.

95 See ISE, GEMX and MRX Options 3, Section 15(a)(3)(B)(i). See also BX Options 3, Section 15(c)(2)(A).

preserving an IOC Order submitted through SQF is consistent with the Act as Market Makers quote to provide liquidity on the Exchange and the risk protection is intended to provide a protection to those participants when acting as liquidity providers. Market Makers utilizing IOC Orders may also provide liquidity but to a lesser extent. The Exchange believes that limiting the risk protection to quotes, similar to other Nasdaq affiliated markets, continues to protect investors while not also purging IOC orders which may interact against other interest on the Exchange.

The Exchange now proposes to introduce two optional thresholds which, in addition to the existing percentage-based and volume-based thresholds, will make up the suite of Rapid Fire thresholds that will be offered to Market Makers upon the technology migration. First, in new subparagraph (c)(2)(A)(iii) of Phlx Options 3, Section 15, the Exchange proposes to add:

> (iii) **Delta Threshold**. A Market Maker may provide a Delta Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (1) purchased call contracts plus sold put contracts and (2) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the member organization, the System will automatically remove a Market Maker's quotes in all series of the options class.

The proposed rule text for Delta Threshold is identical to BX Options 3, Section 15(c)(2)(A)(iii).

Second, in new subparagraph (c)(2)(A)(iv) of Phlx Options 3, Section 15, the Exchange proposes to add:

> **Vega Threshold**. A Market Maker may provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega

> Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

The proposed rule text for Vega Threshold is identical to BX Options 3, Section 15(c)(2)(A)(iv).

With the proposed changes to add the Delta and Vega Thresholds described above, the Exchange also proposes to amend its Rapid Fire and Multi-Trigger rules to align the rule structure with BX Options 3, Section 15(a)(2)(C). In restructuring these rules, the existing Phlx functionality will remain unchanged except with respect to when the Rapid Fire and Multi-Trigger thresholds will be triggered, and a minor change to the specified time period. Each will be discussed in more detail below. The Exchange will separately describe the Active Quote Protection amendment proposed in Options 3, Section 15(c)(2)(B) below.

To effect this change, the Exchange proposes to adopt new rule text in Phlx Options 3, Section 15(c)(2)(A), which will provide that Market Makers are required to utilize the Percentage Threshold or Volume Threshold. The Exchange will also replace each instance of "Percentage-Based Threshold" and "Volume-Based Threshold" with "Percentage Threshold" and "Volume Threshold" throughout Options 3, Section 15(c)(2) to align with BX terminology. The Exchange further proposes to add that Market Makers may utilize the new Delta and Vega Thresholds to make clear that these thresholds are optional for Market Makers. The Exchange has determined not to make the new Delta and Vega Thresholds mandatory under this proposal, and will continue to require Market Makers to utilize either the Percentage or Volume Threshold, for Market Makers who do not elect to use the Active Quote Protection discussed below in lieu of the Rapid Fire protections.

For each of these features, the System will automatically remove a Market Maker's quotes in all series in an options class when any of the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. As noted above, this is a change from current functionality where as amended, Rapid Fire will be triggered only when the Market Maker exceeds any of the designated thresholds. Currently, Rapid Fire is triggered when the designated thresholds are met or exceeded.[96] In addition, a Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the System will automatically remove a Market Maker's quotes in all series of an options class. This is another change from current functionality where today, the Specified Time Period established by the Market Maker for the Percentage and Volume Thresholds must not exceed 15 seconds.[97] The proposed changes on Phlx relating to when Rapid Fire will be triggered and the Specified Time Periods will align with BX Options 3, Section 15(c)(2)(A). By harmonizing Phlx's Rapid Fire rule to BX's rule in this manner, the Exchange seeks to simplify the regulatory requirements and increase the understanding of the Exchange's operations related to Rapid Fire for market participants on Phlx and on BX. The Exchange believes more consistent rules with its affiliated exchange will contribute to less complexity for market participants and more efficient regulatory compliance.

Otherwise, the new rule text in Phlx Options 3, Section 15(c)(2)(A) will not change existing Rapid Fire functionality. In particular, the Specified Time Period will commence for an options class every time an execution occurs in any series in such

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[96] See Phlx Options 3, Section 15(c)(2)(A) and (B).

[97] See Phlx Options 3, Section 15(c)(2)(A) and (B).

option class and will continue until the System removes quotes as described in the Rule or the Specified Time Period expires. The Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. The Specified Time Periods will be the same value for each of the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold.[98]

The Exchange also proposes to replace the description of the existing Percentage Threshold in Phlx Options 3, Section 15(c)(2)(A) with new rule text in Options 3, Section 15(c)(2)(A)(i) as follows:

> **Percentage Threshold**. A Market Maker must provide a specified percentage ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each series in an options class, the System will determine (1) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (2) the sum of the Series Percentage in the options class ("Issue Percentage") during a Specified Time Period. The System tracks and calculates the net impact of positions in the same options class; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class during the Specified Time Period.

With the proposed changes, the Percentage Threshold will be applied in the same manner as today, except with respect to the differences discussed above (i.e., when the

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98 See id. for similar features in the current Percentage and Volume Thresholds.

Percentage Threshold will be triggered and the threshold's Specified Time Period). The proposed rule text is identical to BX Options 3, Section 15(c)(2)(A)(i).

The Exchange also proposes to replace the description of the existing Volume Threshold in Phlx Options 3, Section 15(c)(2)(A)(ii) with new rule text in Options 3, Section 15(c)(2)(A)(ii) as follows:

> **Volume Threshold**. A Market Maker must provide a Volume Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class when the Market Maker executes a number of contracts which exceeds the designated number of contracts in all series in an options class.

With the proposed changes, the Volume Threshold will be applied in the same manner as today, except with respect to the differences discussed above (i.e., when the Volume Threshold will be triggered and the threshold's Specified Time Period). The proposed rule text is identical to BX Options 3, Section 15(c)(2)(A)(ii).

In connection with the foregoing changes, current Phlx Options 3, Section 15(c)(2)(C), which describes the Exchange's Multi-Trigger risk protection, will be amended throughout to add the Delta and Vega Thresholds wherever the Rule references Percentage and Volume Thresholds. In addition, the Exchange proposes to amend the Multi-Trigger Specified Time Period from 15 seconds to 30 seconds to align with the Specified Time Periods proposed above. The Exchange further proposes in the Multi-Trigger rule to amend when Multi-Trigger will be triggered to align with the Rapid Fire changes proposed above. Specifically, the Exchange proposes to amend the provision, "[o]nce the System determines that the number of triggers equals or exceeds a number…" to instead state, "[o]nce the System determines that the number of triggers <u>exceeds</u> a number…" to make clear that Multi-Trigger will no longer remove Market Maker quotes when the Multi-Trigger threshold is met (and not exceeded).

Phlx Options 3, Section 15(c)(2)(D), which explains how the System purges quotes once the Rapid Fire and Multi-Trigger thresholds are triggered, will be amended to conform with the changes proposed above. In particular, the Exchange proposes conforming changes to add the Delta and Vega Thresholds wherever these provisions reference Percentage and Volume Thresholds, and to replace "reached" with "exceeded" in each instance where the language indicates that the Rapid Fire and Multi-Trigger thresholds have been reached.[99]

Phlx Options 3, Section 15(c)(2)(E) will likewise be amended to add references to the Delta and Vega Thresholds, and will state that if a Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Specified Time Period(s) for the Percentage, Volume, Delta, or Vega Threshold.[100] As is the case today, the Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.

Phlx Options 3, Section 15(c)(2)(F), which sets forth the re-entry process once Rapid Fire and Multi-Trigger are triggered, the Exchange will likewise add references to the Delta and Vega Thresholds wherever the provision refers to the Percentage and Volume Thresholds. The Exchange also proposes a clarifying change in the first sentence to add, "[w]hen the System removes quotes as a result of <u>exceeding</u>…" in order

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99 The Exchange will describe the amendments to proposed Options 3, Section 15(c)(2)(D)(i) and (ii) further below.

100 The Specified Time Period(s) will also be automatically reset if Rapid Fire is triggered (and the System automatically removes quotes).

to align with BX Options 3, Section 15(c)(2)(F). The Exchange further proposes a non-substantive change in the first sentence to amend "reentry" to "re-entry"

Lastly, Options 3, Section 15(c)(2)(G), will be amended to specify that the Exchange will require Phlx Market Makers to utilize either the Percentage Threshold, the Volume Threshold, or the Contract Limit. For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge. The Delta, Vega, and Multi-Trigger Thresholds are optional. The Exchange is adding "Contract Limit" to the required risk protections that must be utilized by a Phlx Market Maker.

The following are examples to illustrate how the proposed Delta and Vega Thresholds would apply:

Example: Delta Threshold

MM1 has Delta Threshold set to 10 contracts

MM1 quotes IBM Call Option 2.55 (100) x 3.00 (1000)

FIX Order to Sell 11 @ MKT trades with MM quote

Trade occurs for 11 @ 2.55, triggers Rapid Fire for MM1 since 11 calls purchased for MM1 > MM1's Delta Threshold of 10

Example: Vega Threshold

MM1 has Vega Threshold set to 10 contracts

MM1 quotes IBM Call Option 2.55 (100) x 3.00 (1000)

FIX Order to Sell 11 @ MKT trades with MM quote

Trade occurs for 11 @ 2.55, triggers Rapid Fire for MM1 since 11 calls purchased for MM1 > MM1's Vega Threshold of 10

Active Quote Protection

The Exchange proposes to adopt an active risk counter functionality called active quote protection ("Active Quote Protection"), at Phlx Options 3, Section 15(c)(2)(B), which will be available to Market Makers as an alternative to existing passive risk counter functionality described in Options 3, Section 15(c)(2)(A) (i.e., "Automated Quotation Adjustments" or Rapid Fire).[101] The proposed Active Quote Protection functionality will be identical to BX Options 3, Section 15(c)(2)(B). Today, the Exchange requires Market Makers to configure risk exposure thresholds based on either percentage of executed quotes ("Percentage Threshold") or total number of executed contracts ("Volume Threshold"). Also, as proposed herein, the Exchange proposes two optional risk exposure thresholds based on the absolute value of the difference between long and short positions ("Delta Threshold"), and absolute value of the difference between contracts bought and contracts sold ("Vega Threshold") (collectively, "Thresholds").[102] As set forth in Options 3, proposed Section 15(c)(2)(A), the System tracks each Threshold with a corresponding risk counter over a Market Maker-specified rolling time period not to exceed 30 seconds. Furthermore, Section 15(c)(2)(A) describes that when a risk counter exceeds the corresponding Threshold during the specified time period, the System would automatically remove the Market Maker's quotes in all series of the applicable options class (each, a "Purge Event"). As a result of a Purge Event, the corresponding risk counter and Threshold would reset upon such removal. The Exchange

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101 As described below, the Exchange will specifically define this passive risk counter functionality as "Rapid Fire" within this Rule.

102 The proposed Thresholds are described in detail in Phlx Options 3, Section 15(c)(2)(A)(i) – (iv). If a Market Maker does not provide a parameter for each Threshold, the Exchange will apply default parameters announced to member organizations.

also notes that pursuant to Section 15(c)(2)(E) today, the Thresholds and risk counters can be completely reset if the Market Maker specifically requests the System to remove quotes in all options series in an underlying issue. This risk protection is passive in that the risk counters wait to reset until the expiry of a specified time period, a Purge Event, or when the Market Maker otherwise sends a specific instruction to the Exchange to remove quotes to completely reset the counters.

The Exchange now proposes to introduce a new risk protection, which is an alternative to Rapid Fire, called Active Quote Protection that would enable Market Makers to actively manage their executed contract limit ("Contract Limit") by sending an electronic instruction to the Exchange to decrement their executed contract limit counter ("Limit Counter") by a specified amount at any time, rather than waiting until the expiry of a defined time period, when the risk limit is exceeded (like a Purge Event), or when the Market Maker otherwise sends a specific instruction to purge quotes to completely reset the risk counter.[103]

The Contract Limit, as set by the Market Maker, would apply for the duration of the trading day. Once the Market Maker's Limit Counter exceeds the Contract Limit set by the Market Maker, the System would automatically remove quotes in all series of the applicable options class submitted through the Exchange's Specialized Quote Feed protocol,[104] identical to how the quote removal mechanism works for a Purge Event

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[103] If the Market Maker opting to use Active Quote Protection does not provide a Contract Limit at the outset, the Exchange will apply a default parameter for the Active Quote Protection Contract Limit (which would be announced to member organizations). The Exchange will initially set the default Contract Limit at 100 contracts.

[104] Specialized Quote Feed or "SQF" is an interface that only Market Makers may use to submit quotes to the Exchange at renumbered Supplementary Material .03(B) to Options 3, Section 7.

today.[105] Today, Purge Events are triggered under the existing Quotation Adjustments on the first execution that exceeds the applicable Threshold. Once an execution occurs, the System checks all Thresholds to see if they have been exceeded. If exceeded, the Market Maker's quote would be purged pursuant to Phlx Options 3, Section 15(c)(2)(C). In order to remain consistent with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS, any marketable orders or quotes that are executable against a Market Maker's quotes that are received[106] prior to the time the applicable Threshold is triggered will be automatically executed up to the size of the Market Maker's quote, regardless of whether the execution would cause the Market Maker to exceed their pre-set Percentage Threshold, Volume Threshold, Delta Threshold, or Vega Threshold.[107]

Under Active Quote Protection, the System would similarly handle the Market Maker's quote in that the quote could be filled one execution over the Contract Limit before the Market Maker's remaining quotes are cancelled by the System in order to be consistent with the firm quote obligations under Rule 602 of Regulation NMS. Specifically, the Exchange notes that any marketable orders or quotes that are executable against a Market Maker's quotes that are received[108] prior to the time the Contract Limit is triggered will be automatically executed up to the size of the Market Maker's quote,

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105 See Options 3, Section 15(c)(2)(C).

106 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

107 See proposed Phlx Options 3, Section 15(c)(2)(D)(ii).

108 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

regardless of whether the execution would cause the Market Maker to exceed the Contract Limit.[109]

Additionally, under Active Quote Protection, Market Makers will be able to submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero.[110] Market Makers that elect to use the proposed Active Quote Protection on a badge[111] will not be able to use the existing Threshold risk protections described above on the same badge (i.e., the active and passive risk counter functionality would be mutually exclusive per badge) given that it would be unnecessarily complex to implement from a technology standpoint. Market Makers may be associated with multiple badges today, so if they want to use both risk protections for their activity on the Exchange, they will be able to set either the active or passive risk counter functionality on each badge.

To effectuate the foregoing changes, the Exchange proposes to set forth the new risk protection in paragraph (B) of Phlx Options 3, Section 15(c)(2), as follows:

> In lieu of Rapid Fire, a Market Maker may provide an executed contract limit ("Contract Limit") that, if exceeded, the System will automatically remove the Market Maker's quotes in all series of an options class submitted through SQF. The System will apply the Contract Limit for the duration of the trading day. For each class of options, the System will maintain an active limit counter that will track the current number of contracts executed through the Market Maker's quotes ("Limit Counter").

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[109] For both the current Quotation Adjustments and proposed Active Quote Protection, the System will execute marketable interest up to the size of the Market Maker's quote, but cannot guarantee interest will be fully executed, as is the case with any execution in the Exchange's order book. There is always the possibility that the Market Maker's quote size (and/or Market Maker's quote plus other interest on the order book) may not be sufficient volume to fill the incoming interest.

[110] As discussed later in this rule change, in order to re-enter the System after their quotes are purged pursuant to the Active Quote Protection, Market Makers will need to submit the same request to fully decrement their Limit Counter to zero.

[111] Phlx Options 1, Section 1(b)(6) provides that the term "badge" means an account number, which may contain letters and/or numbers, assigned to Lead Market Makers and Market Makers. A Lead Market Maker or Market Maker account may be associated with multiple badges.

> If the Limit Counter exceeds the Contract Limit established by the Market Maker, the System will automatically remove the Market Maker's quotes as described in Section 15(c)(2)(D). Market Makers may submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero, including to re-enter the System as described in Section 15(c)(2)(E). For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge.

The Exchange also proposes to amend proposed paragraph (G) of Phlx Options 3, Section 15(c)(2) to specify that the active and passive risk counter functionality will be mutually exclusive per badge). As amended, proposed paragraph (G) will provide:

> The Exchange will require Phlx Market Makers to utilize either the Percentage Threshold, the Volume Threshold, or the Contract Limit. For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge. The Delta, Vega, and Multi-Trigger Thresholds are optional.

As described above, once the Limit Counter exceeds the Contract Limit set by the Market Maker under the proposed Active Quote Protection, the System would automatically remove quotes in the same manner as currently specified for a Purge Event in proposed paragraph (D) of Phlx Options 3, Section 15(c)(2). Accordingly, the Exchange proposes to add Active Quote Protection's Contract Limit throughout the proposed Rule as noted herein. Specifically, proposed paragraph (D) will provide that the System will automatically remove quotes in all series of an options class in an underlying security when the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or the Contract Limit has been exceeded. The System will automatically remove quotes in all series of an option class in all underlying securities when the Multi-Trigger

Threshold[112] has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected options when the above thresholds have been exceeded. Proposed subparagraph (D)(i) will provide that the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, Contract Limit, and Multi-Trigger Threshold are considered independently of each other.

Further, as discussed above, any marketable orders or quotes that are executable against a Market Maker's quotes that are received[113] prior to the time the applicable Threshold or Contract Limit is triggered will be automatically executed up to the size of the Market Maker's quote, even if such execution would cause the Market Maker to exceed any of their pre-set risk limits with respect to any of the foregoing risk parameters. The Exchange notes that proposed sub-paragraph (D)(ii) only mentions that quotes will execute up to the Market Maker's size, and is silent on marketable orders. In addition, the current Rule does not specify the time of receipt of such marketable interest that is executable against the size of the Market Maker's quote. As such, the Exchange proposes to add this specificity in proposed sub-paragraph (D)(ii) to better describe how the System operates today for Quotation Adjustments and how the System will operate for proposed Active Quote Protection. In particular, sub-paragraph (D)(ii) will provide:

> The System will execute any marketable orders or quotes that are executable against a Market Maker's quote and received prior to the time the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or Contract Limit is triggered up to the size of the Market Maker's quote, even if such execution results in executions in excess of

112 Multi-Trigger Threshold is defined in current paragraph (C) of Section 15(c)(2) as the number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols as specified by the Exchange. This threshold is part of the Exchange's Multi-Trigger risk protection.

113 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

the Market Maker's applicable Threshold or Contract Limit with respect to any parameter.

In addition, when the System removes quotes as a result of exceeding the Contract Limit under Active Quote Protection, the Exchange proposes to require the Market Maker to submit a request to re-enter the System. This request will be the same type of message as the request described in proposed paragraph (B) where the Market Maker must request to fully decrement their Limit Counter back to zero in order to re-enter the System. This requirement will be added in proposed paragraph (F) of Phlx Options 3, Section 15(c)(2), and will be similar to how the existing quote purge mechanism works for the Thresholds today, except the Market Maker needs to send a separate message (i.e., a re-entry indicator) to re-enter the System when their quotes are purged as a result of exceeding any of the existing Thresholds.

The Exchange also proposes that the new Active Quote Protection would leverage the existing and amended multi-trigger ("Multi-Trigger") functionality proposed in Phlx Options 3, Section 15(c)(2)(C). Today, Multi-Trigger is a risk protection offered alongside the current Quotation Adjustments. A Market Maker or Market Maker Group, which is defined as multiple affiliated Phlx Market Makers,[114] may provide the specified time period and number of allowable Purge Events by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols as specified by the Exchange ("Multi-Trigger Threshold"). As proposed, Multi-Trigger is triggered when during a time period

[114] This would be more than one Phlx Market Maker, but does not require the aggregation of all of the member organization's Market Makers. A Group would be comprised of Phlx Market Makers affiliated with one member organization (i.e., one options member firm). The member organization would be required to define a Group by providing a list of such affiliated Phlx Market Makers to the Exchange.

established by the Market Maker not to exceed 30 seconds, the total number of Quotation Adjustment Purge Events exceeds the Multi-Trigger Threshold provided to the Exchange by the Phlx Market Maker or Phlx Market Maker Group. When Multi-Trigger is triggered, the System automatically purges all of the Market Maker's or Group's quotes in all options series in an underlying issue. As set forth in proposed Phlx Options 3, Section 15(c)(2)(F), when the System removes quotes as a result of the Multi-Trigger Threshold, the Market Maker must manually request re-entry to the System by contacting the Exchange. Exchange staff must then set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the Phlx Market Maker or Group for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.

Today, Multi-Trigger is meant to provide Market Makers or a Group with protection from the risk of multiple executions across multiple series of an option or across multiple options. This risk protection recognizes that risk to Market Makers is not limited to a single series in an option or even to all series in an option; Market Makers that quote in multiple series of multiple options have significant exposure, requiring them to offset or hedge their overall positions. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. Multi-Trigger is therefore intended to assist Market Makers or Groups in managing their market risk by tracking the number of Purge Events relative to the Multi-Trigger Threshold set by the Market Maker or Group. The Exchange believes that tracking the number of Active Quote Protection Purge Events for a Market Maker or Group against its Multi-Trigger Threshold would be similarly useful for managing market risk.

To that end, the Exchange proposes to further update Multi-Trigger to add purge events under Active Quote Protection to the Multi-Trigger counter such that Active Quote Protection purge events and Purge Events under the current Quotation Adjustments will be aggregated together as counting toward the specified Multi-Trigger Threshold. Accordingly, the Exchange proposes to add references to the Active Quote Protection rule (i.e., proposed paragraph (B) of Options 3, Section 15(c)(2)) throughout the Multi-Trigger rule in proposed paragraph (C), specifically:

> A Market Maker or Market Maker Group (multiple affiliated Market Makers is a "Group" as defined by a Phlx member and provided by such member to the Exchange) may provide a Specified Time Period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated Phlx protocols, as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period established by the Phlx Market Maker not to exceed 30 seconds ("Multi- Trigger Specified Time Period"), the number of times the System automatically removes the Phlx Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage Threshold described in paragraph (A)(i) above, the Volume Threshold described in paragraph (A)(ii) above, the Delta Threshold described in paragraph (A)(iii) above, the Vega Threshold described in paragraph (A)(iv) above, and the Contract Limit described in paragraph (B) above. Once the System determines that the number of triggers exceeds a number established by either the Phlx Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Phlx Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Phlx Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes in all options series in an underlying issue. A Multi-Trigger Specified Time

Period will commence after every trigger of the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or Contract Limit and will continue until the System removes quotes as described in paragraph (D) below or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the Phlx Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

The following example illustrates the proposed behavior of the Active Quote Protection risk protection:

Active Quote Protection Example

Market Maker AAPL

Contract Limit: 100

Market Maker trades a transaction for 10 contracts in AAPL; Limit Counter goes from 0 to 10.

Market Maker sends a request to decrement its Limit Counter in AAPL for 10 contracts; Limit Counter goes from 10 to 0.

Market Maker trades a transaction for 20 contracts in AAPL; Limit Counter goes from 0 to 20.

Market Maker trades a transaction for 50 contracts in AAPL; Limit Counter goes from 20 to 70.

Market Maker sends a request to decrement its Limit Counter in AAPL for 20 contracts; Limit Counter goes from 70 to 50.

Market Maker trades a transaction for 60 contracts in AAPL; Limit Counter goes from 50 to 110 and all Market Maker quotes in AAPL are automatically purged after the execution because the Limit Counter exceeded the Market Maker’s Contract Limit of 100 executed contracts.

At this point, the Market Maker must send a request to fully decrement its Limit Counter in AAPL back to zero in order to begin quoting again.

<u>Multi-Trigger Active Quote Protection Example</u>

Assume Market Maker in AAPL and SPY has Quotation Adjustments set for AAPL and Active QP set for SPY.

Market Maker sets its Multi-Trigger Threshold so that it is triggered at 25 purge events within a 20 second time period.

On a given trading day, if an Active Quote Protection Purge Event is triggered 15 times in SPY and a Quotation Adjustment Purge Event is triggered 11 times in AAPL, all within 20 seconds, then the Exchange will automatically remove all of the Market Maker's quotes AAPL and SPY because 26 purge events were triggered for the Market Maker.

Lastly, the Exchange proposes to title paragraph (A) as "Rapid Fire" and paragraph (C) as "Multi-Trigger" to more clearly identify which rules apply to which risk protections.

Post-Only Quoting Protection

The Exchange proposes to adopt an optional quoting protection for Market Makers at Phlx Options 3, Section 15(c)(3) that will be identical to BX Options 3, Section 15(c)(3). This optional risk protection would allow Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry. As proposed, Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). A Post-Only Quote Configuration would re-price or cancel a Market Maker's quote that would otherwise lock or cross any resting order or quote[115] on the order book upon entry. Market Makers may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced and displayed by the System to one

[115] This would include any re-priced orders pursuant to Phlx Options 3, Section 5(d), ALOs as described in proposed Options 3, Section 7(n), and any re-priced quotes as described in Phlx Options 3, Section 4(b)(6). As described above, ALOs may re-price.

MPV below the current best offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).[116] When configured for cancel, Market Makers will have their quotes cancelled whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. Finally, the Exchange notes that similar to BX, this risk protection will not apply during an Opening Process because the order book is established once options series are open for trading. Below are some Post-Only Quote Configuration examples.

<u>Re-Priced Post-Only Quote Configuration—Penny Interval Program Display and Execution Example</u>

Penny Interval Program MPV in open trading state

Market Makers A and C do not have Post-Only Quote Configuration risk protection configured

Market Maker B is configured for Post-Only Quote Configuration re-price

Market Maker A quote \$0.98 (10) × \$1.00 (10)

ABBO \$0.96 × \$1.03

Market Maker B quote \$1.00 (10) × \$1.01 (10) arrives

- ○ Bid side of quote re-prices onto order book @ 0.99 and sets displayed NBBO to 10 quantity
- ○ Offer side rests at 1.01 without issue

116 Phlx Options 3, Section 4(b)(6) provides that a quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will either be re-priced and displayed at one minimum price variance above (for offers) or below (for bids) the national best price, or immediately cancelled, as configured by the Member.

Market Maker C quote \$0.97 (20) × \$0.98 (20) arrives

Trades 10 with Market Maker B @ \$0.99 and 10 with Market Maker A @ \$0.98

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured for such, removes liquidity by interacting with re-priced interest on Phlx's order book.

Re-Priced Post-Only Quote Configuration—Non-Penny Interval Program Display and Execution Example

Non-Penny Interval Program MPV in open trading state

Market Maker A quote \$0.95 (10) × \$1.00 (10)

ABBO \$0.85 × \$1.05

Market Maker B (configured for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives \$1.00 (5) × \$1.05 (5)

- ○ Bid side quote re-prices on order book to \$0.95
- ○ Displays on order book @ \$0.95 (bid), which now shows (15 quantity)
- ○ Offer side quote books and displays in Depth of Market Feed at \$1.05

Order to sell 10 contracts arrives @ \$0.95

- ○ 7 contracts execute with Market Maker A @ \$0.95
- ○ 3 contracts execute with Market Maker B @ \$0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote Configuration with re-price.

Options 3, Section 23

The Exchange proposes to amend Phlx Options 3, Section 23, Data Feeds and Trade Information. The Exchange proposes to rename various market data feeds in Phlx Options 3, Section 23(a) to harmonize the names of the feeds to ISE, GEMX and MRX market data feeds at Options 3 Section 23(a). Specifically, the Exchange proposes to rename "Top of PHLX Options" to "Nasdaq Phlx Top of Market" but continue to utilize

"TOPO" as the acronym. The Exchange proposes to rename "PHLX Orders" as "Nasdaq Phlx Order Feed." Finally, the Exchange proposes to rename "PHLX Depth of Market" as "Nasdaq Phlx Depth of Market." The Exchange proposes similar amendments to the name of the feeds at Options 7, Section 9, B.

The Exchange proposes to no longer offer TradeInfo, which is a user interface set forth in Phlx Options 3, Section 23(b)(2) that permits a member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. Due to the lack of demand for this interface by member organizations the Exchange is retiring the interface. The Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced technology platform with the technology migration. The Exchange notes that FIX and the Clearing Trade Interface ("CTI"),[117] which are available to all member organizations, can be used today to obtain order information that is currently available within TradeInfo, and FIX can be used to cancel orders today.

Additionally, the Exchange proposes to remove the $95 per user, per month TradeInfo Interface Fee in the Pricing Schedule at Options 7, Section 9, B. The fee would not be necessary once TradeInfo is discontinued.

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[117] CTI is a real-time clearing trade update message that is sent to a member after an execution has occurred and contains trade details specific to that member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or "OCC" number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity. See Options 3, Section 23(b)(1).

<u>Options 3, Section 28</u>

The Exchange proposes to introduce optional quantity and notional value checks in new Phlx Options 3, Section 28, entitled "Optional Risk Protections." The proposed optional order risk protections will be identical to the protections currently offered by ISE, GEMX and MRX Options 3, Section 28. Member organizations may use this voluntary functionality through their FIX protocol to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, member organizations may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1)-(4):

(1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;

(2) Daily aggregate notional dollar value;

(3) Quantity per order; and

(4) Daily aggregate quantity

Proposed paragraph (b) will provide that member organizations may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection. Member organizations may modify their settings through Market Operations. Proposed paragraph (c) will provide that the System will reject all incoming aggregated member organization orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the member organization is exceeded. Proposed paragraph (d) will provide that the System will reject all incoming member organization orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the member organization is exceeded by the incoming order. The

Exchange notes that the difference in handling between aggregate and individual order protections is necessary to allow for complete processing of the final order that puts a member organization's configured value over the aggregate values configured. While individual orders can be directly measured against the configured values for (a)(1) and (a)(3), the aggregate values must be calculated after complete processing of an order and thus the rejection of orders begins upon the arrival of the next order after the aggregate values in (a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming aggregated orders after the (a)(2) or (a)(4) values configured by the member organization have been exceeded.

<u>Optional Risk Protection Example</u>

Aggregate Quantity Limit = 800.

Member organization enters an order to Buy 500 – Accepted

Member organization enters an order to Buy 400 – Accepted (member organization did not meet the configured limit of 800 with the first order of 500 at the time Member organization entered the second order)

Member organization enters an order to Buy 1 – Rejected (member organization already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the member organization have been exceeded by the arriving order:

Quantity Per Order Limit = 800.

Member organization enters an order to Buy 801 – Rejected (member organization exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a member organization sets a notional dollar value, a Market Order would not be accepted from that member organization. This is because notional dollar value is calculated by using an order's specified limit price, and

Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX. Additionally, all of the proposed settings will be firm level.

Options 5, Section 4

The Exchange proposes to amend Options 5, Section 4, Order Routing, to align Phlx's routing to ISE Options 4, Section 5.

The Exchange proposes to amend Phlx Options 5, Section 4(a) to include Stop-Limit Orders in addition to Stop Orders in the list of order types that are not included in the PBBO because they have not been triggered. Today, Phlx's Stop Order description refers to both a market and limit order. The Exchange's proposal adopts the Stop Order at ISE Options 3, Section 7(d) and Stop Limit Order at ISE Options 3, Section 7(e). The Exchange proposes to reflect both order types. As is the case today, the Exchange proposes to note, similar to ISE Options 4, Section 5(a), that when checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. The Exchange believes that this sentence will bring greater clarity to the Exchange's rule. Similarly, the Exchange proposes to add text to clarify its current System behavior for TIFs. Today, routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The Exchange also believes this sentence will clarify the current operation of the routing System. Finally, as is the case today, the Exchange proposes to note the time the routing System is available, the ability to list an order as non-routable and cross-reference the locked and crossed rules. The Exchange would state, "The order routing process shall be available to members from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Member organizations can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules." This proposed rule text provides greater transparency to the Exchange's current System operation and harmonizes Phlx's rule text to ISE Options 4, Section 5(a).

The Exchange proposes some modifications to its FIND Order in Phlx Options 5, Section 4(iii)(B) to conform to ISE Options 5, Section 4(iii)(B). By way of background, a FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. Phlx proposes to add the following language to the end of Options 5, Section 4(iii)(B) to reflect its current routing functionality, "FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day *and post to the order book, even in the event that there is a new Opening Process after a trading halt.*" Phlx also proposes to add rule text to the end of Phlx Options 5, Section 4(a)(iii)(B) which states, "…and post to the Order book, even in the event that there is a new Opening Process after a trading halt" to make clear that the FIND Order would post to the Order Book and not route again, even if there were a new Opening Process.[118]

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[118] FIND Orders that are not marketable with the ABBO upon receipt are handled differently than FIND Orders that are marketable with the ABBO upon receipt. FIND Orders that are marketable with the ABBO upon receipt would be eligible for routing the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt. FIND Orders that are not marketable with the ABBO upon receipt will not be subject to routing even in the event that there is a new Opening Process after a trading halt. The handling of FIND Orders on Phlx is identical to ISE Options 5, Section 4(a)(iii)(B).

The Exchange proposes to amend Phlx Options 5, Section 4(iii)(B)(1). The Exchange proposes to remove the following sentences, "With respect to an Opening Process, only a Public Customer and Professional FIND Order on the Order Book, whether it is received prior to the opening or it is a GTC FIND Order from a prior day, may be routed at the conclusion of an Opening Process. Non-Public Customer and non-Professional FIND Orders are not eligible for routing at the conclusion of an Opening Process." Phlx proposes to amend its routing functionality to permit all market participants to route, not just Public Customer and Professional FIND Orders. To this end, Phlx proposes to remove this limitation. The Exchange proposes to amend the next sentence which state, "At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will be executed pursuant to Options 3, Section 8(k)." The Exchange proposes to instead provide, "At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price *will execute or book* pursuant to Options 3, Section 8(k)." The Exchange noted in proposed Phlx Options 5, Section 4(iii)(B) that a FIND Order may post to the order book in certain cases. This rule text adds clarity to the rules by naming all possible scenarios. Finally, the Exchange proposes to remove the last sentence of this paragraph which states, "Such FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process." The Exchange is removing this sentence because of the addition to the end of Options 5, Section 4(a)(iii)(B). The Opening Process at Phlx Options 3, Section 8(k), describes the manner in which orders route at the end of that process. This sentence is not necessary within this routing rule. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day, and will not be subject to routing even in the event that there is a new Opening Process after a trading halt.[119]

Phlx Options 5, Section 4(iii)(B)(2) currently states,

> With respect to an Opening Process, if during a route timer at the conclusion of an Opening Process pursuant to Options 3, Section 8(k) markets move such that the FIND Order is executable against Exchange interest, the FIND Order will immediately execute. If during a route timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the PBBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the route timer. If the ABBO worsens but remains better than the PBBO, the FIND Order will reprice and be reexposed at the new price(s) without interrupting the route timer.

In order to more efficiently display the various potential routing scenarios, without repeating certain rule text several times throughout the rule, the Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(2), similar to ISE Options 5, Section 4(a)(iii)(B)(2), to describe the potential scenarios that may occur for a FIND Order. The proposed paragraph provides,

> Generally, a FIND Order will be included in the displayed PBBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO

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119 Orders that route during an Opening Process route at the end of the Opening Process, when the Exchange simultaneously opens an options series and routes. Thereafter, FIND Orders that were submitted after the Opening Process would attempt once to route until the FIND Order rests on the Order Book. Once it rests on the Order Book, the FIND Order would not route until the next Opening Process. Finally, an Opening Process may occur intra-day if there was a trading halt. After a trading halt BX would reopen with an Opening Process and the FIND Order would be eligible to route once again.

> when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during a Route Timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the BBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the BBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

This paragraph utilizes the term "generally" because it always applies to FIND Orders. The Exchange proposes to state that a FIND Order will be included in the displayed BBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO.[120] This statement will provide context to the FIND Order and would apply consistently to FIND Orders. The Exchange further proposes to provide that if there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO.[121] The Exchange further proposes to describe the possible scenarios that may occurring during a Route Timer, when ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the BBO, the FIND Order will always post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route each time at the completion of the Route Timer. In

120 This sentence is currently located in Phlx Options 5, Section 4(iii)(B)(5).

121 This sentence is currently located in Phlx Options 5, Section 4(iii)(B)(5).

the situation where an ABBO worsens, but remains better than the BBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer, each time. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade always against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.[122] The Exchange believes that describing these scenarios in this introductory paragraph will provide a basis to understand certain FIND Order behaviors in certain circumstances and eliminate the need to have these circumstances repeated throughout the rule. The Exchange proposes to remove the first sentence of Phlx Options 5, Section 4(a)(iii)(B)(2) because it is covered within Phlx Options 3, Section 8(k), which describes the Opening Process. The Exchange believes that this paragraph, as amended, will provide greater clarity as to all the possible scenarios and will harmonize Phlx's rule to ISE's rule.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(3) to add "A FIND Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book at its limit price. The FIND Order will be treated as DNR for the remainder of the trading day*, even in the event that there is a new Opening Price after a trading halt*" to the end of the paragraph. This text is similar to ISE Options 5, Section 4(a)(iii)(B)(3). Phlx treats FIND Orders received after an Opening Process that are not marketable against the BBO or the ABBO in the same manner as ISE. Phlx is adding this rule text to make clear that the FIND Order will

122 This sentence is currently located in Phlx Options 5, Section 4(iii)(B)(5).

not route, even if there is a new Opening Process to reflect current System functionality. The Exchange will not allow a non-marketable order to route. The same sentence is being added to Phlx Options 5, Section 4(a)(iii)(B)(4) for clarity.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(5) to remove sentences that were relocated to Phlx Options 5, Section 4(a)(iii)(B)(2) as noted above.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(6) to amend the penultimate sentence to note that an Opening Process may occur after a trading halt. An Opening Process would occur intra-day if there was a trading halt. After a trading halt, Phlx would reopen with an Opening Process. This is the case today and this rule text accounts for this potential scenario. The Exchange is removing the final sentence which states, "The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt." As noted above, Phlx proposes to amend its routing functionality to permit all market participants to route, not just Public Customer and Professional FIND Orders. The Exchange is removing this sentence which is unnecessary as orders of all market participants will route. The same amendments were also made to Phlx Options 5, Section 4(a)(iii)(B)(8).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(B)(7) to remove the final sentence as that concept was relocated to Phlx Options 5, Section 4(a)(iii)(B)(2) in the section that generally describes routing.

The Exchange proposes some modifications to its SRCH Order in Phlx Options 5, Section 4(iii)(C) to conform to ISE Options 5, Section 4(iii)(C). By way of background, a SRCH Order is routable at any time the option series is open for trading. Similar to the removal of restrictions related to Public Customer and Professional order for a FIND Order, the Exchange proposes to remove these limitations as to SRCH Order. The Exchange is adding a Good-Till-Date Order or GTD at proposed Supplementary Material .02(c) to Phlx Options 3, Section 7. Today, the Exchange does not offer a GTD Order. The GTD Order would be identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7. The Exchange proposes to add GTD to into Phlx Options 5, Section 4(iii)(C), similar to ISE Options 5, Section 4(iii)(C), to reflect how a GTD TIF would be handled by the System for a SRCH Order.[123]

The Exchange proposes to amend Phlx Options 5, Section 4(iii)(C)(1) to add a citation to the Opening Price at Options 3, Section 8(a)(iii). The Exchange also proposes to amend the rule text similar to the FIND Order to indicate that the SRCH Order would execute or book to account for all the scenarios that are possible today. The proposed rule text reflects current System functionality.

Similar to the FIND Order proposal, the Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(2) to provide general guidelines for the behavior of SRCH Orders which apply consistently. This proposed paragraph will allow the Exchange to more efficiently display the various potential scenarios without repeating certain rule text several times. The Exchange believes that describing these scenarios in this introductory paragraph will provide a basis to understand certain SRCH Order behaviors in certain circumstances and eliminate the need to have these circumstances repeated throughout the rule. Proposed Phlx Options 5, Section 4(a)(iii)(C)(2) provides,

> Generally, a SRCH Order will be included in the displayed BBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which

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[123] A GTD SRCH Order may be routed as part of the Opening Process.

> case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order is entered onto the Order Book, the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. If during a Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO, the SRCH Order will book at its limit price. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. The System will route and execute contracts contemporaneously at the end of the Route Timer.

Generally, a SRCH Order will be included in the displayed PBBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO, similar to other routing order types. Also, if there is a locked ABBO when the SRCH Order is entered onto the Order Book, the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO to avoid locking the away market. The Exchange proposes to generally state, "Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market." This provision is always true of SRCH Orders.

Next, the Exchange provides scenarios that generally may occur during a Route Timer. The first scenario is if during a Route Timer, ABBO markets move such that the

SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO. In this case, the SRCH Order will book at its limit price. The next scenario is whether during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If new interest arrives that is equal to or better than the ABBO price, the SRCH Order will trade at the ABBO price. If new interest arrives that is marketable against the SRCH Order it will trade at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. This last sentence makes clear that the SRCH Order would execute at the previous ABBO price as the away market crossed a displayed price. Better priced incoming interest will execute against the SRCH Order, unless the ABBO crosses the SRCH Order, in which case any new interest will execute at the SRCH Order price. In this scenario, Phlx's price was already displayed when an away market subsequently crossed Phlx's displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. Also, if an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer, each time. Finally, if the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. The Exchange notes that the System will route and execute contracts contemporaneously at the end of the Route Timer. The proposed rule text is identical to ISE Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(3), which is being renumbered, to add "at its limit price" to specify at which price the SRCH Order would be entered on the Order Book if not marketable.

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(4), which is being renumbered, to make a technical amendment to change "at" to "on". The Exchange also proposes to remove "price equal to the" because it is unnecessary. Finally, the Exchange proposes to remove the last sentence, "Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market." This sentence was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(5), which is being renumbered, to make a technical amendment to change "at" to "on". The Exchange also proposes to add "the remainder of the" to make clear that this sentence is about size remaining on the order after exhausting the PBBO. Finally, the Exchange proposes to remove the last two sentences that were relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(6), which is being renumbered, to add "to an away market" to more clearly state where the order is being routed to. The Exchange proposes to remove "locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If the SRCH Order" because this scenario was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2). The Exchange is updating citations and capitalizing book and adding Order before it. The Exchange proposes to remove the last sentence that was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(7), which is being renumbered, to remove the second, four, fifth and final sentence that were relocated to Phlx Options 5, Section 4(a)(iii)(C)(2).

The Exchange proposes to amend Phlx Options 5, Section 4(a)(iii)(C)(8), which is being renumbered, to update citations and pluralize "price". The Exchange proposes to remove the last sentence that was relocated to Phlx Options 5, Section 4(a)(iii)(C)(2). The Exchange also proposes to remove current Phlx Options 5, Section 4(a)(iii)(C)(8) and (9) which were relocated to Phlx Options 5, Section 4(a)(iii)(C)(2). Finally, the Exchange proposes to renumber current relocated to Phlx Options 5, Section 4(a)(iii)(C)(10) as "9".

Options 6, Section 1

The Exchange proposes to amend Options 6, Section 1, Authorization to Give Up, to align Phlx's process to that of ISE, GEMX and MRX Options 6, Section 1. The Exchange proposes to remove "with respect to floor trading only" from Options 6, Section 1(a). With this technology migration, for each transaction in which a member organization participates, the member organization may indicate, at the time of the trade, or through post trade allocation, any Options Clearing Corporation number of a Clearing Member through which a transaction will be cleared ("Give Up"), provided the Clearing Member has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s) ("Restricted OCC Number"). With this change, the provision for "at time of trade" will apply to both floor and electronic trading, therefore, electronic only members may indicate a Give-Up at the time of trade. Today, electronic trading members indicate a Give-Up in the post allocation process. The Exchange's automation of the Give-Up process will permit it to prevent an unauthorized Give-Up of a Restricted OCC Number that is submitted to the System from being processed. The Exchange proposes to amend Options 6, Section 1(c) to add the following sentence, "If an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Member's default OCC clearing number." Because the Exchange is adding this automated feature, it proposes to remove the rule text in Options 6, Section 1(c)(ii) that provides, "For all other orders, the System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry." The Exchange will be able to prevent unauthorized Give Ups of Restricted OCC Numbers systematically, similar to ISE, GEMX and MRX Options 6, Section 1, and would not need this restriction in Options 6, Section 1(c)(ii).

Options 8, Section 32

The Exchange proposes some minor numbering amendments to Options 8, Section 32, Types of Floor-Based (Non-System) Orders. The Exchange proposes to renumber Options 8, Section 32(b), Contingency Order, as "5." The Exchange proposes to renumber Options 8, Section 32(b)(1), Stop-Limit Order as "i". The Exchange proposes to renumber Options 8, Section 32(b)(2), Stop (stop-loss) Order as "ii." The Exchange proposes to renumber Options 8, Section 32(b)(3), All or None Order as "iii."

The Exchange proposes to renumber Options 8, Section 32(b)(4), Cancel-Replacement Order as "iv." The Exchange proposes to renumber Options 8, Section 32(b)(5), Immediate or Cancel Order as "v." The Exchange proposes to renumber Options 8, Section 32(c), Time in Force or "TIF" as "b". Finally, the Exchange proposes to re-letter current Options 8, Section 32(d), Not Held Orders, as "c" and reserve "d".

The Exchange proposes to amend All-Or None Orders at current Phlx Options 8, Section 32(b)(3) to remove the restriction that only a Public Customer can only submit it. Consistent with the amendment to electronic All-or-None Orders, Phlx proposes to remove this restriction so that any market participant may enter an All-or-None Order. The Exchange also proposes to add an OPG TIF as an available TIF for the trading floor. Today, the TIF is available for floor participants. Any floor participant may enter the TIF of OPG on the trading floor. The Exchange's proposal to add the OPG TIF will provide greater clarity to the Exchange's rules.

Implementation

The Exchange will implement this rule change on or before December 20, 2025. Phlx would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

2. Statutory Basis

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

Act,[124] in general, and furthers the objectives of Section 6(b)(5) of the Act,[125] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. As it relates to the elimination of fees for TradeInfo, the Exchange believes that its proposal is consistent with Section 6(b) of the Act,[126] in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,[127] in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Generally, the Exchange's proposal is intended to add or align certain System functionality with functionality currently offered on ISE, GEMX, MRX, BX or NOM in order to provide a more consistent technology offering across affiliated Nasdaq options exchanges. A more harmonized technology offering, in turn, will simplify technology implementation, changes, and maintenance by market participants of the Exchange that are also participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks to provide greater harmonization between the rules of the Exchange and its affiliates, which would result in greater uniformity, and less burdensome and more efficient regulatory compliance by market participants. As such, the proposal would foster cooperation and coordination with persons engaged in facilitating transactions in

124 15 U.S.C. 78f(b).

125 15 U.S.C. 78f(b)(5).

126 15 U.S.C. 78f(b).

127 15 U.S.C. 78f(b)(4) and (5).

securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that more consistent rules will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. The proposal also seeks to memorialize existing functionality and add more granularity in the Exchange's rules to describe how existing functionality operates today. The Exchange believes that such changes would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would promote transparency in Exchange rules and reducing potential confusion, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's Rulebook and better understand how options trading is conducted on the Exchange.

Options 2, Section 6

The Exchange believes that permitting Market Makers to enter all eligible order types, except Reserve Orders, in both appointed and non-appointed options classes is consistent with the Act. Today, ISE, GEMX and MRX Options 2, Section 6 only restricts Market Makers from entering Reserve Orders. The Exchange proposes to permit Market Makers to enter Market Orders and Stop Orders similar to all other market participants on Phlx. Today, all market participants, including Market Makers, may transact Market Orders and Stop Orders on other options markets.[128] The Exchange does not believe there is any reason to restrict Market Makers from entering Market Orders or

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128 See Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX) Options 2, Section 6 and NYSE Arca, Inc. Rule 6.37B-O and NYSE American LLC Rule 925.2NY.

Stop Orders. In 2019, Phlx noted in its rule change[129] that it believes that continuing the practice of prohibiting Market Makers from entering Market Orders is consistent with the Act because Market Orders are designed to remove liquidity from the Order Book. Further, Stop Orders are non-displayed order types until they are triggered which does not benefit the role of a Market Makers in displaying liquidity on the Order Book. At this time, the Exchange believes that because there are restrictions on the number of contracts that a Market Maker may enter in a quarter,[130] Market Makers should be permitted to utilize Market Orders and Stop Orders to remove liquidity from its order book without impacting their ability to provide liquidity.

Today, Phlx restricts all market participants from entering All-or-None Orders except Public Customers. Similar to other options markets, the Exchange proposes to permit all market participants to enter All-or-None Orders. The Exchange is proposing to amend the All-or-None Order type in Options 3, Section 7 to reflect this proposed change. In 2019, the Exchange amended its All-or-None Order to no longer offer the order type to Professionals.[131] At the time, the Exchange noted that permitting Public Customers to enter All-or-None Orders with specific size limitations that rest on the

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129 See Securities Exchange Act Release No. 87691 (December 9, 2019), 85 FR 68197 (December 13, 2019) (SR-Phlx-2019-52) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Order Types and Remove and Relocate Certain Rule Text Currently Located Within Rule 1080).

130 Pursuant to Phlx Options 2, Section 6, the total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

131 See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (March 13, 2019) (SR-Phlx-2019-03) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Option Floor Procedure Advice A-9 and Phlx Rules 1000 and 1066 and To Adopt a New Phlx Rule 1078). Prior to this rule change, All-or-None Orders were available to Public Customers and Professionals.

Order Book would continue to allow Public Customers the opportunity to obtain fills for their orders when the market moves even if the All-Or-None Order was not immediately executable upon entry. The Exchange notes since the 2019 rule change, the All-or-None Order was amended so that it would no longer rest on the order book, rather the order type would be executed in its entirety, or it will cancel if it cannot execute. The Exchange notes that with the change to an immediate-or-cancel order there is no longer a need to permit the All-or-None Orders to be limited to Public Customers. At this time, the Exchange also proposes to reflect in Phlx Options 2, Section 6 the ability of Market Makers to also trade All-or-None Orders. The Exchange notes that Directed Orders are orders directed to a Market Maker by an Order Flow Provider. An order becomes a Directed Order when it interacts with a Market Maker quote that is at the NBBO at the time of receipt of the Directed Order. The Exchange believes it is misleading to include a Directed Order in this list because a Directed Order may be executed by a Market Maker.

Today, Market Makers execute certain orders directed to them pursuant to Phlx Options 2, Section 10, provided they were quoting at the NBBO at the time the order arrived. Upon execution, these orders are treated as Directed Orders pursuant to Phlx rules. A two-sided order with a Public Customer on both sides may by its own terms only be entered by a Public Customer. That restriction remains in the rules. The Exchange notes that there is no reason to restrict Market Makers in entering order types, except for the restriction related to Reserve Orders, in options classes in which they are appointed and non-appointed. Unlike other order types, the Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. The Exchange believes that because a Reserve Order contains a non-displayed portion, Market Makers should not be permitted to enter this order type. Market Makers are required to make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange's System in all series of options classes to which the market maker is appointed. The Exchange believes that markets should be transparent.

Market Makers continue to be obligated to add liquidity on the Exchange. Options 2, Section 6(b) restricts the number of contracts that a Market Maker may enter in an options class to which the Market Maker is not appointed. Options 2, Section 5 requires Market Makers to abide by certain quoting requirements, in the options classes in which they are appointed, in order to maintain the status of a Market Maker. The Exchange believes that permitting a Market Maker to enter additional eligible order types, except Reserve Orders, in their appointed options class will permit Market Makers additional latitude to conduct business on the Exchange and effectively compete with other market makers on other options exchanges. Quotes and orders entered by a Market Maker may not interact against quotes and orders entered on the opposite side of the market by the same Market Maker.

Options 3, Section 4

Phlx's proposal to amend Options 3, Section 4(b)(6) to permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote is consistent with the Act. This proposal would continue to protect investors and the public interest because the functionality would prevent a quote from locking and crossing an away market while also providing member organization with more flexibility in handling their quotes.

Options 3, Section 6

The Exchange's proposal to discontinue Quote Exhaust is consistent with the Act because, today, Phlx offers various risk protections in its System limit executions at far away prices. Phlx offers an Acceptable Trade Range protection at Options 3, Section 15(b)(1), an Anti-Internalization protection at Options 3, Section 15(c)(1), and an Automated Quotation Adjustments protection at Options 3, Section 15(b)(2). Phlx is also proposing additional risk protections with this proposal. Other Nasdaq affiliated exchanges do not offer Quote Exhaust. Once discontinued, the Exchange's quoting functionalities will abide by Phlx's Options 3, Section 4 rules governing the entry and display of orders and the allocation methodology in Phlx Options 3, Section 10.

The Exchange's proposal to adopt a new rule in Phlx Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 is consistent with the Act and will protect investors and the general public by stating in its rules the manner in which Phlx would comply with Rule 602 of Regulation NMS. Additionally, providing Phlx with the ability to act in the case of unusual market conditions to maintain fair and orderly markets is consistent with the Act and would allow Phlx to manage trading in the same manner as ISE, GEMX and MRX in the event of unusual market conditions.

Options 3, Section 7

The Exchange believes that the proposed changes to the rules governing

Exchange order types are consistent with the Act. As discussed above, the proposed changes consist of several functional enhancements to align the Exchange's order types to existing ISE, GEMX and MRX order types, and rule adjustments that add more specificity and clarity to existing order types.

Market Orders

The Exchange believes that the proposed changes to the definition of Market Orders in proposed Options 3, Section 7(a) are consistent with the Act. The proposed intra-day cancel timer feature mirrors existing ISE, GEMX and MRX functionality at Options 3, Section 7(a)(5), and would provide member organizations with additional flexibility and control to bring the Market Order back to the member organization so they can get an execution on another venue by canceling unexecuted Market Orders after a certain period of time. The Exchange believes it is appropriate to offer this feature intra-day because the Exchange already has a separate opening delay timer that provides protection to the market during the Opening Process as discussed above.

In addition to the amendments to the definition of Market Orders, the Exchange proposes to permit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers to enter Market Orders similar to all other market participants on Phlx. The Exchange's proposal to no longer restrict Lead Market Makers, Market Makers, and Off-Floor Broker Dealers from transacting Market Orders on Phlx is consistent with the Act because it would permit all market participants on the Exchange to enter Market Orders. Today, ISE, GEMX and MRX do not prohibit Lead Market Makers, Market Makers, and Off-Floor Broker Dealers from entering Market Orders and those markets have not observed any adverse consequences. Also, current Phlx Options 2, Section 6 restricts the number of contracts that a Market Maker (or Lead Market Maker) may enter in a quarter,[132] thereby preventing Market Makers from entering an unlimited quantity of orders. The Exchange does not believe there is any reason to restrict Lead Market Makers, Market Makers, or Off-Floor Broker Dealers from entering Market Orders.

Limit Orders

The Exchange's proposal to relocate "Limit Orders" from current Options 3, Section 7(b)(2) to proposed Options 3, Section 7(b) without change. The Exchange also proposes to break out Limit Order further to define a Marketable Limit Order at proposed Options 3, Section 7(b)(1) as a Limit Order to buy (sell) at or above (below) the best offer (bid) on the Exchange. Finally, the Exchange proposes to define a Fill-or-Kill Order at proposed Options 3, Section 7(b)(2) as a Limit Order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled. This proposed new rule text aligns this Phlx order type to ISE, GEMX and MRX Options 3, Section 7(b)(2) and will provide Phlx member organizations the same ability to send this type of IOC order as ISE, GEMX and MRX Members.

Intermarket Sweep Orders

The Exchange's proposal to relocate an Intermarket Sweep Order from current Options 3, Section 7(b)(3) to proposed Options 3, Section 7(b)(3) with some additions is consistent with the Act. The Exchange proposes to reorder some sentences to closely resemble ISE, GEMX and MRX Options 3, Section 7(b)(3). The Exchange proposes to add an additional sentence to make clear that ISOs must have a TIF designation of IOC.

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[132] Pursuant to Phlx Options 2, Section 6, the total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

Additionally, the Exchange proposes to define the "regular order book" as the "single-leg order book." The Exchange believes that its proposal will promote transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges. Furthermore, the proposed changes do not amend current ISO functionality except for the proposed stipulation that ISOs must have a TIF designation of IOC. Today, Options 5, Section 1(h) provides that ISOs may be either an IOC or an order that expires on the day it is entered. The Exchange believes it is appropriate to no longer allow non-IOC ISOs, as an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market. The Exchange therefore believes that ISOs have a limited purpose and should be cancelled if they do not execute or do not entirely execute. This is also consistent with how ISE, GEMX and MRX currently handle ISOs in that they only allow ISOs to be entered as IOC.

All-or-None Orders

The Exchange's proposal to relocate and amend the All-or-None Orders from current Options 3, Section 7(b)(5) to proposed Options 3, Section 7(c) is consistent with the Act. Today, Phlx restricts All-or-None Orders to be entered only by Public Customers. At this time, the Exchange proposes to permit any member or member organization to submit an All-or-None Order similar to ISE, GEMX, and MRX Options 3, Section 7(c). The Exchange believes that allowing all member organizations to utilize an All-or-None Order removes impediments to and perfects the mechanism of a free and open market and a national market system. Similar to ISE, GEMX and MRX, the Exchange proposes to modify All-or-None Orders so that they would execute against multiple, aggregated orders if the executions would occur simultaneously. The proposed description of the handling of All-or-None Orders is consistent with the Exchange's allocation methodology in Options 3, Section 10 by making clear that because of the size contingency of the All-or-None Order (i.e., executed in its entirety or not at all), those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Finally, the proposed changes to add that AON Orders may not be submitted during the Opening Process will better articulate current System behavior, and aligns to the level of detail currently in ISE, MRX, and GEMX Options 3, Section 7(c).

Stop and Stop Limit Orders

The Exchange believes that the proposed changes to the definition of Stop Orders and Stop Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent with the Act. Today, Phlx's Stop Order may be a Limit or Market Order. Also, the Stop Order may not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. At this time, the Exchange proposes to amend its Stop Order to mirror the order type that is in use on ISE, GEMX and MRX at Options 3, Section 7(d) and (e). Phlx will permit all member organizations to utilize a Stop Order and Stop Limit Order and not restrict Lead Market Makers, Maker Makers, and Off-Floor Broker-Dealers from using the order type which removes impediments to and perfects the mechanism of a free and open market and a national market system. Also, the Exchange will not separately specify a Stop Market Limit Order, rather it will describe an elected Stop Order as a Market Order. Therefore, the

Exchange will describe a Stop Order and Stop Limit Order. Aligning Phlx's current functionality for a Stop Order and Stop Market Order to that of ISE, GEMX and MRX will create consistent rules and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest.

Cancel and Replace Orders

The Exchange's proposal to relocate the Cancel and Replace Order description from Options 3, Section 7(b)(7) to proposed Options 3, Section 7(f) and mirror the functionality on ISE, GEMX and MRX at Options 3, Section 7(f). Aligning Phlx's current functionality for a Cancel and Replace Order to that of ISE, GEMX and MRX will create consistent rules and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest.

Reserve Orders

The Exchange's proposal to adopt a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g) is consistent with the Act as it will align Phlx's current functionality for a Reserve Order to that of ISE, GEMX and MRX will create consistent rules and will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. Both the displayed and non-displayed portions of a Reserve Order would be available for potential execution against incoming marketable orders. A non-marketable Reserve Order would rest on the order book. The displayed portion of a Reserve Order would be ranked at the specified limit price and the time of order entry. This new order type will be available to all member organizations, except Market Makers as noted herein. The proposed rule change will promote competition as Reserve Orders will provide member organizations with additional flexibility to manage and display their orders and additional control over their executions on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors.

Attributable Orders

The Exchange's proposal to adopt Attributable Orders at Options 3, Section 7(h) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(h) is consistent with the Act. An Attributable Order would be a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. This new order type will be available to all member organizations and the proposed rule change will promote competition, as Attributable Orders will provide member organizations with additional flexibility to manage their orders on the Exchange. This new order type may encourage market participants to bring additional liquidity to the market, which benefits all investors.

Directed Orders

The Exchange proposes to relocate the reference to Directed Orders currently in Options 3, Section 7(b)(11) to Options 3, Section 7(l) without change aligns the Phlx order type to ISE, GEMX and MRX Options 3, Section 7(l).

Add Liquidity Orders

The Exchange's proposal to adopt ALOs at Options 3, Section 7(n) that are identical to ISE, GEMX and MRX Options 3, Section 7(n) is consistent with the Act. ALOs are limit orders that will only be executed as a "maker" on the Exchange. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. The ALO order type would provide market participants greater control over the circumstances in which their orders are executed. The purpose of an ALO is to provide liquidity. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (or rebate) upon execution of an order, the Exchange believes that ALOs will accommodate this strategy. This new order type will be available to all member organizations. This new order type may encourage market participants to bring additional liquidity to the market, which benefits all investors.

PIXL Order

The Exchange's proposal to relocate the description of a PIXL Order from Options 3, Section 7(b)(9) to Options 3, Section 7(y) without change aligns the Phlx order type to ISE, GEMX and MRX Options 3, Section 7(y).

Day Order

The Exchange's proposal to relocate Day Order from current Options 3, Section 7(c)(1) to Supplementary Material .02(a) to Options 3, Section 7 with minor amendments is consistent with the Act. The Exchange is rewording the rule text of Day Order to mirror the text in ISE, GEMX and MRX Supplementary Material .02(a) to Options 3, Section 7.

Good-Till-Cancelled

The Exchange's proposal to relocate Good Till Cancelled from Options 3, Section 7(c)(4) to Supplementary Material .02(b) to Options 3, Section 7 and amend the description is consistent with the Act. The Exchange's proposal to provide that a Good-Till-Canceled Order is an order to buy or sell entered with a TIF of "GTC" and remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract would address a corporate event, noting that GTC orders are canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. This rule text clarifies the current System behavior. The proposed GTC description is identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(b) to Options 3, Section 7. There is no System change as a result of the change to the description of the GTC order.

Good-Till-Date

The Exchange's proposal to adopt a new TIF designation, Good-Till-Date Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX's Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7 is consistent with the Act. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of "GTD," which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD orders may be entered through FIX. The Exchange believes this additional TIF will provide member organizations with additional opportunities when trading on Phlx.

Immediate-or-Cancel

The Exchange's proposal to relocate Immediate-or-Cancel from Options 3, Section 7(c)(2) to Supplementary Material .02(d) to Options 3, Section 7 and amend the description is consistent with the Act. These modifications are non-substantive and simply bring more clarity to the text. These changes align with rule text in ISE, GEMX and MRX, as applicable.

Opening Only

The Exchange's proposal to relocate Opening Only from Options 3, Section 7(c)(3) to proposed Supplementary Material .02(e) of Options 3, Section 7 is consistent with the Act. Opening Only Orders would be subject to the Size Limitation and Market Wide Risk Protections thereby protecting investors and the general public. Of note, the Market Wide Risk Protection is a new protection being adopted by this proposal.

Order Entry Protocols

The Exchange's proposal to amend the rule text currently in Supplementary Material .03(a) of Options 3, Section 7 is consistent with the Act. The addition of post trade allocation messages to the list of features that will be included in FIX will enhance that feature at no cost. Today, ISE, GEMX and MRX provides for post trade allocation messages through FIX.[133]

Routing

The Exchange's proposal to relocate the rule text at Options 3, Section 7(d) to

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133 See Supplementary Material .03(a) of Options 3, Section 7.

Supplementary Material .04 of Options 3, Section 7 without change is a non-substantive amendment.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, at Options 3, Section 8(b) to note the eligible interest that will be included in the Opening Process, is consistent with the Act. The Exchange proposes to note that "Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps, and orders, *including Opening Only Orders, but excluding orders with a Time-In-Force of "Immediate or Cancel" and Add Liquidity Orders*. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. *The displayed and non-displayed portions of the Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process.* Non-SQT Market Makers may submit orders." The Exchange notes that today, Opening Only Orders are eligible for the Opening Process but not Immediate or Cancel Orders. With the addition of the Add Liquidity Orders and the Reserve Orders, the Exchange is proposing to note how those order types are accepted by the System for the Opening Process. The proposed eligibility of these orders mirror ISE, GEMX and MRX Options 3, Section 8(b). Also, similar to ISE, GEMX and MRX Options 3, Section 8(g), the Exchange proposes to account for the addition of Reserve Orders with respect to the Potential Opening Price[134] in Phlx Options 3, Section 8(h). The Exchange notes that to calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including

134 The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met.

Opening Sweeps *and displayed and non-displayed portions of Reserve Orders*) for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). The Exchange believes that the addition of this rule text will make clear the manner in which the System will handle a Reserve Order during the Opening Process.

The Exchange's proposal to amend Options 3, Section 8(h)(A), which currently describes how the Potential Opening Price would be calculated when there is more than one Potential Opening Price is consistent with the Act. Today, Section 8(h)(A) provides that when two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price. The Exchange now proposes to no longer round in the direction of the previous trading day's closing price and simply round up to the minimum price variation if the mid-point of the high/low is not expressed as a permitted minimum price variation. The proposed changes are intended to simplify and bring greater transparency to the Opening Process, as market participants can now have a better sense of how the Potential Opening Price will be calculated without having to account for the closing price of each options series.

Amending Options 3, Section 8(j)(7), which currently describes the determination of Opening Quote Range ("OQR") boundaries, in certain scenarios is consistent with the

Act. Specifically, the Exchange proposes to amend the last sentence of Options 3, Section 8(j)(7) which currently states, "The System will route routable Public Customer and Professional interest pursuant to Options 3, Section 10(a)(1)(A)." The Exchange proposes to remove the current limitation that only allows routable Public Customer and Professional interest to route during the Opening Process thereby permitting all market participants to route and removes the impediments to and perfects the mechanism of a free and open market and a national market system. All routable market participant interest will be allowed to route to align the Exchange's opening functionality with ISE, GEMX and MRX which does not limit orders that may route in the Opening Process within Options 3, Section 8. The Exchange will also update the cross-cite to Options 3, Section 10(a)(1)(A), currently pointing to the Public Customer priority overlay, to the more general priority rule in Options 3, Section 10(a).

Similar to other changes noted herein, the Exchange proposes to amend Options 3, Section 8(k)(C)(6) to note how Reserve Orders will be handled in the Opening Process for purposes of execution. This rule text will add transparency to Phlx's rule text similar to ISE, GEMX and MRX Options 3, Section 8(j)(6). Additionally, the Exchange proposes an amendment to the last sentence of Options 3, Section 8(k)(C)(6) which currently states, "The System will only route non-contingency Public Customer and Professional orders." In line with proposed amendments to permit the System to route all market participant interest, thereby removing the limitation that only allows routable Public Customer and Professional interest to route, and in line with the addition of rule text related to the handling of Reserve Orders.

The Exchange proposes to amend Options 3, Section 8(k)(D) to mirror rule text in Options 3, Section 8(j)(6)(i) which states, "The System will cancel any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening." Today, the System will cancel any order or quote priced through the Opening Price on Phlx. Also, today, all other interest will be eligible for trading after the Opening Process and will remain on the order book. The Exchange believes that this rule text will bring greater transparency to Phlx's Opening Process.

Finally, the Exchange proposes to amend rule text in the Opening Process Cancel Timer in Options 3, Section 8(l). With the adoption of the Good-Til-Cancel Order and Good-Till-Date Order, the Exchange proposes to rename the order types in the last sentence of Options 3, Section 8(l) for consistency.

Options 3, Section 9

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, at (d)(3) to amend the manner in which a Stop Order will be treated during a trading halt is consistent with the Act. The Exchange proposes to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3). Today, after the opening, the Exchange will elect Stop Orders, as defined in Options 8, Section 32(c)(2), and, because they become Market Orders, shall cancel them back and notify member organizations of the reason for such cancellation. The Exchange proposes to note that Stop Orders become elected as provided for in proposed Options 3, Section 7(d).[135] The Exchange currently cites to Options 8, Section 32 erroneously, as those rules refer to Stop Orders on

[135] As proposed in Phlx Options 3, Section 7(d) a Stop Order becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

the trading floor. The Exchange proposes to instead cite proposed new Options 3, Section 7(d) which describes electronic Stop Orders. The Exchange also proposes to note that the System cancels orders. Also, the Exchange proposes to change the word rejection to cancellation because the order would be cancelled not rejected. These proposed changes are intended to bring greater clarity to the Exchange's rules.

Options 3, Section 10

The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, is consistent with the Act. Phlx proposes to amend its rounding methodologies to round up to the nearest integer throughout the Rule. The Exchange is opting to round up and not down, uniformly, and disclose that rounding methodology directly within Options 3, Section 10, so that all member organizations are aware of the rounding methodology that would be utilized by the System. In addition, if the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because it is rounding up, the provisions which describe allocations for remainders of less than one contract cannot occur and therefore this rule text is being removed, as such remainders would not be mathematically possible. The Exchange believes that rounding up uniformly is consistent with the Act because it provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. The Exchange proposes to amend Options 3, Section 10(a)(1)(B) to change a reference to "DROT" to "Directed Market Maker" for consistency.

The Exchange proposes to amend Options 3, Section 10(a)(1)(C) to provide that "After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Options 2, Section 10, provided the Directed Market Maker's quote is at the better of the internal PBBO or the NBBO, the Directed Market Maker will be afforded a participation entitlement. This participation entitlement will be considered after the Opening Process." Today, a Directed Market Maker's quote or market maker order must be at the better of the internal PBBO or NBBO. The Exchange believes that similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(C), that market maker orders should not be considered when offering Directed Market Maker Priority. The Exchange proposes to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order. Consistent with this change, the Exchange proposes to remove "or order(s)" after quote throughout Options 3, Section 10(a)(1)(C). Only offering a Directed Market Maker an enhanced allocation on quotes is consistent with the obligations of a Directed Market Maker, to be quoting at the better of the internal PBBO or the NBBO at the time of receipt of the Directed Order.[136]

The Exchange's proposal to amend the Entitlement for Orders of 5 contracts or fewer to align with ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) is consistent with the Act. The Exchange proposes to amend the last sentence to provide, "On a

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[136] See Phlx Options 2, Section 10.

quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over 40%." Today, the percentage is 25%. Phlx notes that currently Lead Market Makers are not approaching the 25% threshold noted in Options 3, Section 10(a)(1)(D)(ii) related to the quarterly review of 5 contracts or fewer by the Exchange, which percentage is based on total volume executed. With this proposal, Phlx will monitor the frequency in which Lead Market Makers receive orders for 5 contracts or fewer. Specifically, the Exchange will review the proposed provision quarterly and will maintain the orders for 5 contracts or fewer at a level that will not allow these small size orders executed by Lead Market Makers to account for more than 40% of the volume executed on the Exchange. The Exchange does not believe the proposal raises any new or novel issues as other options exchanges also offer the same allocation for orders for 5 contracts or fewer.[137] The Exchange believes that providing this benefit offers Lead Market Makers an incentive for vigorous quoting since a Lead Market Maker must be quoting at the NBBO in order to receive the allocation. Incentivizing Lead Market Makers to provide liquidity on Phlx, in turn, provides greater opportunity for executions, tighter spreads, and better pricing for all member organizations. While the Commission has, in the past, been concerned about locking up larger portions of order flow from intra-market price competition, the Exchange believes that the enhancement would remain adequately balanced by the increased 40% threshold that limits the volume of orders of five contracts or fewer that are executed by Lead Market Makers to account for no more

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[137] See ISE, GEMX and MRX Options 3, Section 10(a)(1)(D).

than 40% of the volume executed on the Exchange. The proposed increased limitation of 40% continues to strike a reasonable balance between encouraging vigorous price competition by Lead Market Makers and rewarding those Lead Market Makers for their unique duties. Lead Market Maker are also subject to the heightened quoting requirements specified in Options 2, Section 5(c)(2)(B). Finally, changing the percentage from 25% to 40% will align Phlx with ISE, GEMX and MRX and permit market makers to have the same compliance across the Nasdaq exchanges.[138]

Similar to ISE, GEMX and MRX Options 3, Section 10(c)(1)(E), the Exchange proposes to account for Reserve Orders in proposed Options 3, Section 7(g)(3). The Exchange proposes to cite to proposed Section 7(g)(3) which provides that the displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders and this subparagraph (F) for non-Public Customer Orders. The Exchange also proposes to add a citation to 10(a) in this paragraph for clarity.

Options 3, Section 15

Order Price Protection

The Exchange's proposal to amend its Order Price Protection or "OPP" (also known as the fat finger check) in Options 3, Section 15(a)(1) to align certain features with the OPP functionality currently offered by its affiliates, NOM and BX, is consistent with the Act. The Exchange believes that the proposed changes to OPP to introduce an alternative threshold that uses a configurable dollar amount, as discussed above, will allow Phlx to establish appropriate boundaries for rejecting potentially erroneous orders while continuing to allow member organizations to access liquidity. As discussed above,

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[138] BX also utilizes 40%. See Options 3, Sections 10(a)(1)(C)(1)(c) and 10(a)(2)(iii).

OPP is intended to prevent orders entered at clearly unintended prices from executing in the System to the detriment of market participants. OPP was not intended to reject legitimate orders which are otherwise capable of executing at a fair price. The Exchange's proposal will establish a fixed dollar amount as an alternative threshold in addition to the current percentage-based threshold, similar to NOM and BX Options 3, Section 15(a)(1). The Exchange believes its proposal will continue to protect investors and the public interest against erroneous executions while also allowing orders, including lower-priced orders, to execute where appropriate.

The Exchange believes that its proposal is consistent with the Act because the fixed amount provides for a larger range of executions that would otherwise be rejected by the application of a percentage which would not capture the potential incremental executions. As illustrated above, orders could be rejected that were intentional and not erroneous. Similar to NOM and BX, the Exchange believes that the proposed approach will accomplish the goal of limiting erroneous executions while permitting intentional executions at reasonable prices.

The Exchange also believes that its proposal to add rule text relating to Exchange discretion to temporarily deactivate OPP on an intra-day basis is consistent with the Act. As noted above, NOM and BX have identical language in Options 3, Section 15(a)(1)(A), and similar to NOM and BX, the Exchange believes that having this discretion will be useful if the Exchange determined that unusual market conditions warranted deactivation in the interest of a fair and orderly market. Like NOM and BX, the Exchange believes that it will be useful to have the flexibility to temporarily disable OPP intra-day in response to an unusual market event (for example, if dissemination of data was delayed and resulted in unreliable underlying values needed for the Reference BBO) to maintain a fair and orderly market. This will promote just and equitable principles of trade and ultimately protect investors.

Lastly, the Exchange's proposal to amend Options 3, Section 15(a)(1) to remove the current exclusion of ISOs and Complex Orders from the OPP rule is consistent with the Act. The proposed changes to remove the exclusion of ISOs so that OPP would apply to them going forward is consistent with the Act as this will promote the goal of limiting erroneous executions on the Exchange and in general, extend more protections to ISOs. As discussed above, the Exchange believes this is appropriate given that the proposed alternative threshold will permit more lower-priced ISOs to execute at reasonable prices. Finally, the Exchange is removing Complex Orders as the simple risk protections do not apply to Complex Orders, rather the Complex Order risk protections in Options 3, Section 16 would apply.

Market Wide Risk Protection

The Exchange believes that the proposed rule change to adopt MWRP would assist with the maintenance of a fair and orderly market by establishing new activity based risk protections for orders. The proposed MWRP is similar to risk management functionality provided in ISE, GEMX and MRX Options 3, Section 15(a)(1)(C). Similar to ISE, GEMX and MRX, the Exchange believes that the proposed rule change may reduce member organization risk by allowing them to effectively manage their exposure to excessive risk. In particular, the proposed rule change would implement two new risk protections based on the rate of order entry and order execution, respectively. The Exchange believes that both of these new protections, which together encompass the proposed MWRP, would enable member organizations to better manage their risk when trading options on the Exchange by limiting the member organization's risk exposure when systems or other issues result in orders being entered or executed at a rate that exceeds predefined thresholds. In today's market, the Exchange believes that robust risk management is becoming increasingly more important for all member organizations. The proposed rule change would provide an additional layer of risk protection for market participants that trade on the Exchange.

In particular, the MWRP is designed to reduce risk associated with system errors or market events that may cause member organizations 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, member organizations could reduce the amount of order flow and liquidity that they provide. Such actions may undermine the quality of the markets available to customers and other market participants. Accordingly, the proposed functionality is designed to encourage member organizations to submit additional order flow and liquidity to the Exchange, thereby removing impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

Anti-Internalization

The Exchange believes that the proposed rule change to enhance AIQ is consistent with the protection of investors and the public interest as it is designed to provide Market Makers with additional flexibility with respect to how to implement self-trade protections provided by AIQ. Currently, all Market Makers are provided functionality that prevents quotes and orders from one market participant identifier from trading with quotes and orders from the same market participant identifier. This allows Market Makers to better manage their order flow and prevent undesirable executions where the Market Maker, using the same market participant identifier, would be on both sides of the trade. While this functionality is helpful to member organizations, some member organizations may prefer not to trade with quotes and orders entered by different market participant identifiers within the same Exchange account or member organization firm. The Exchange is therefore proposing to provide member organizations with flexibility with respect to how AIQ is implemented. As such, member organizations can continue to use current functionality, or member organizations that prefer to prevent self-trades across different market participant identifiers within the same Exchange account or at the member organizations firm level will now be provided with the means to do so under this proposal. Similar flexibility is offered on ISE, GEMX and MRX.[139] Similar to ISE, GEMX and MRX, the Exchange believes that flexibility to apply AIQ at the Exchange account or member organization firm level would be useful for the Exchange's member organizations as well. The Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade and will remove impediments to and perfect the mechanisms of a free and open market as it will further enhance self-trade protections provided to Market Makers similar to those protections provided on other markets.

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[139] See ISE Options 3, Section 15(a)(3)(A). See also NOM and BX Options 3, Section 15(c)(1), which provide similar flexibility.

Quotation Adjustments

The Exchange believes that the proposed rule change is consistent with the Act because it will enhance the risk protection tools available to Market Makers by introducing new Delta and Vega Thresholds that will be offered in conjunction with the current Percentage and Volume Thresholds, thereby strengthening a Market Maker's ability to manage their risk on the Exchange. The proposed thresholds are functionally identical to the Delta and Vega Thresholds provided in ISE, GEMX and MRX Options 3, Section 15(a)(3)(B). Similar to ISE, GEMX and MRX, the Exchange believes that the proposed rule change may reduce Market Maker risk by allowing them to effectively manage their exposure to excessive risk. Accordingly, the Exchange believes that the proposal removes impediments to, and perfects the mechanism of, a free and open market and a national market system, and protects investors and the public interest.

The proposed changes to amend when Rapid Fire and Multi-Trigger will be triggered and the modification to the Specified Time Periods, as discussed above, will bring greater harmonization between the Exchange's rules and ISE's, GEMX's and MRX's rules. Amending the current Rapid Fire functionality to no longer remove IOC Orders submitted through SQF, identical to ISE, GEMX, MRX and BX, is consistent with the Act as Market Makers quote to provide liquidity on the Exchange and the risk protection is intended to provide a protection to those participants when acting as liquidity providers. Market Makers utilizing IOC Orders may also provide liquidity but to a lesser extent. The Exchange believes that limiting the risk protection to quotes, similar to other Nasdaq affiliated markets, continues to protect investors while not also purging IOC orders which may interact against other interest on the Exchange. With the proposed changes, Phlx's Rapid Fire and Multi-Trigger will be triggered when their respective thresholds are exceeded (instead of when they are met or exceeded, as is currently the case) and the Specified Time Periods will be amended from 15 to 30 seconds, all of which will be substantially similar to ISE's, GEMX's and MRX's current approach. The Exchange believes that having more consistent rules will result in greater uniformity as well as less burdensome and more efficient regulatory compliance. In addition, offering more consistent functionality across Phlx, ISE, GEMX and MRX will contribute to less complexity and reduce potential confusion for market participants on Phlx that are also participants on ISE, GEMX and MRX. As such, the Exchange believes that the proposed changes would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

Active Quote Protection

The Exchange believes that the proposed Active Quote Protection risk protection is consistent with the Act because it will enhance the risk protection tools available to Market Makers and Groups by introducing a new method of establishing and monitoring for risk parameters that will be offered as an alternative to existing Rapid Fire risk parameters, thereby supporting a Market Maker's ability to manage their risk on the Exchange, and also providing them with flexibility to use additional tools to manage risk. As noted above, while the passive (Rapid Fire) and active (Active QP) risk counter functionality will be mutually exclusive on each badge, Market Makers will still be able to use both to cover their activity on the Exchange by getting multiple badges and setting each risk counter by badge. The Exchange believes that offering more risk management tools to Market Makers would mitigate their exposure to excessive risk. The Exchange further believes that having the new Active Quote Protection functionality leverage the existing Multi-Trigger functionality will similarly support a Market Maker's ability to manage their risk on the Exchange by including Active Quote Protection purge events to the Multi-Trigger counter. As noted above, the risk to Market Makers is not limited to a single series in an option or even multiple series in an option as Market Makers that quote in multiple series of multiple options have significant exposure, requiring them to offset or hedge their overall positions. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. Today, Multi-Trigger is designed to assist Market Makers or a Group in managing their market risk by tracking the number of Purge Events relative to the market-wide parameter set by the Market Maker or the Group. The Exchange therefore believes that tracking the number of Active Quote Protection purge events for a Market Maker against its Multi-Trigger Threshold would be similarly useful for managing market risk so that they can provide deep and liquid markets to the benefit of all investors. Ultimately, the Exchange believes that providing Market Makers with additional tools in the manner described above to manage their risk parameters serves to perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest because Market Makers will be better able to manage risks with these tools.

The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of

Regulation NMS. Specifically, any marketable interest that is executable against a Market Maker's quotes that are received[140] by the Exchange prior to the time this functionality is triggered will be automatically executed at the price up to the Market Maker's size, regardless of whether such execution results in executions in excess of the Market Maker's pre-set Contract Limit.[141] As discussed above, this is also in line with how current Rapid Fire operates today. The Exchange believes that the proposed changes in proposed sub-paragraph (D)(ii) to specify that this Rule will apply to marketable orders and quotes (currently silent on marketable orders), and to specify the time of receipt of such marketable interest that is executable against the size of the Market Maker's quote, will promote clarity in how the System currently operates for Rapid Fire and will operate for Active Quote Protection. As noted above, the proposed Active Quote Protection functionality is similar to existing active risk counter functionality on ISE, GEMX and MRX Options 3, Section 15(c)(2)(B).

Post-Only Quoting Protection

The Exchange's proposal to amend Options 3, Section 15, Risk Protections, to codify new paragraph (c)(3) to permit Phlx Market Makers to prevent their quotes from removing liquidity from the Exchange's order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to Phlx Market Makers. The proposal also promotes the policy goals of the Commission which has encouraged execution venues, exchanges, and non-exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase

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140 The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

141 See proposed subparagraph (D)(ii) of Phlx Options 3, Section 15(c)(2).

stability. While Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the Phlx order book upon entry, there are also downstream benefits to market participants. Additionally, the benefits of enhanced risk protections flow downstream to counterparties both within and away from the Exchange, thereby increasing systemic protections as well.

The proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange’s order book if their quote would otherwise lock or cross any resting order or quote on Phlx’s order book upon entry, thereby protecting investors and the general public as Phlx Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers would utilize the proposed risk protection to avoid unexpectedly taking liquidity off of the order book. As a result of taking liquidity, Market Makers would incur a taker fee that may impact the Market Maker's ability to provide liquidity and meet quoting obligations. Phlx Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing and enhanced allocations. Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to Phlx by allowing Market Makers to provide as much liquidity as possible, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system and protecting investors and the public interest. There is no impact to other market participants by introducing this Post-Only Quote Configuration as other non-Market Makers may utilize the proposed Add Liquidity Only order type that will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with interest on Phlx's order book and thereby interact with order flow that is priced better than the NBBO. Also, other market participants may interact with the liquidity provided by Market Makers.

Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis[142] and are subject to various obligations associated with providing liquidity on the market.[143] Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Phlx Options 3, Section 15 to allow them to manage their risk more effectively. The proposed Post-Only Quote Configuration is another risk protection afforded to Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on the Exchange and protects investors and the public interest, thereby enhancing market structure by allowing Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by Market Makers. Also, an increase in the activity of Market Makers in turn facilitates tighter spreads.

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142 See Phlx Options 2, Section 5.

143 See Phlx Options 2, Section 4.

Options 3, Section 23

The Exchange's proposal to amend Phlx Options 3, Section 23, Data Feeds and Trade Information, is consistent with the Act. Amending the name of various market data feeds in Phlx Options 3, Section 23(a) is a non-substantive amendment that will harmonize the names of the feeds to ISE, GEMX and MRX Options 3 Section 23(a).

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from member organizations.[144] As noted above, member organizations use FIX and CTI to obtain order information currently available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products.

Further, the Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 9B in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any member organization. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. Additionally, it is equitable and not unfairly discriminatory to remove the references to TradeInfo pricing from the

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144 As noted above, the Exchange will provide prior notice of the decommission to all member organizations through an Options Trader Alert.

Pricing Schedule because no member organization would be able to utilize this functionality once it is removed from the System.

Options 3, Section 28

The Exchange believes that introducing the optional risk protections as described above will protect investors and the public interest, and maintain fair and orderly markets, by providing market participants with another tool to manage their order risk. In addition, providing member organizations with more tools for managing risk will facilitate transactions in securities because member organizations will have more confidence that risk protections are in place. As a result, the new functionality has the potential to promote just and equitable principles of trade. ISE, GEMX and MRX offer identical optional risk protections at Options 3, Section 28.

Options 5, Section 4

The Exchange's proposal to amend Options 5, Section 4, Order Routing, to align Phlx's routing to ISE Options 4, Section 5 is consistent with the Act. The Exchange's proposal to align its rules with ISE will provide Phlx member organizations the same flexibility for routing orders that is afforded to ISE Members today.

With respect to FIND and SRCH, the Exchange is adding more detail to its routing rule to provide market participants with greater transparency. The Exchange believes the added scenarios will provide more context to routing in general and for the specific routing strategies for the benefit of investors and the public interest. The Exchange continues to offer various choices to its market participants with respect to routing. A member organization may elect either (1) to not route their orders and mark those orders "DNR"; or (2) to route their orders. If a member organization elects to route their orders, then a member organization may select to mark their orders as "FIND" or "SRCH" Orders, as proposed herein. Once booked, a FIND Order that is not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day*, even in the event that there is a new Opening Price after a trading halt*.

The FIND Order would route once and then post to the Order Book. A SRCH Order may route during and after an Opening Process. A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market. With respect to the addition of FIND Orders, the Exchange proposes various scenarios related to FIND Orders to account for various routing scenarios, as is the case today with respect to SEEK Orders. Various scenarios are also proposed to explain System functionality in locked and crossed markets and organized in such a manner to make the rule text efficient and organized. The Exchange also accounts for scenarios both during and after the Opening Process. The Exchange notes that it is consistent with the Act to account for the behavior of FIND Orders with respect to locked and crossed markets. The Exchange will not trade-through an away market's price. This behavior is consistent with the protection of investors and the general public because it affords member organizations the ability to obtain the best price offered among the various options markets.

The Exchange's proposal to amend Options 5, Section 4(a) to include Stop-Limit Orders in addition to Stop Orders in the list of order types that are not included in the PBBO because they have not been triggered is consistent with the Act as the Exchange's proposal adopts the Stop Order at ISE Options 3, Section 7(d) and Stop Limit Order at ISE Options 3, Section 7(e). The Exchange proposes to reflect both order types. As is the case today, the Exchange proposes to note, similar to ISE Options 4, Section 5(a) that when checking the order book, the System will seek to execute at the price at which it would send the order to an away market. The Exchange believes that this sentence will bring greater clarify to the Exchange's rule. Similarly, the Exchange proposes to add text to clarify its current System behavior for TIFs. Today, routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The Exchange also believes this sentence will clarify the current operation of the routing System. Finally, as is the case today, the Exchange proposes to note the time the routing System is available, the ability to list an order as non-routable and cross-reference the locked and crossed rules. The Exchange would state, "The order routing process shall be available to members from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Member organizations can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules." This proposed rule text merely provides greater transparency to the Exchange's current System operation and harmonizes Phlx's rule text to ISE Options 4, Section 5(a).

Options 6, Section 1

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, to align Phlx's process to that of ISE, GEMX and MRX Options 6, Section 1 by permitting electronic only members to systematically indicate a Give-Up at the time of trade, instead of in the post allocation process, is consistent with the Act as it will remove impediments to and perfect the mechanism of a free and open market and a national market system and align the process for electronic members to that of floor members while continuing to honor the Clearing Member's instruction. The Exchange's alignment of its process will continue to provide proper safeguards and protections for Clearing Members as well as controls for Clearing Members to restrict access to their OCC clearing numbers, allowing access only to those Authorized Members upon their request. The proposal will harmonize Phlx's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1.

Options 8, Section 32

The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that only a Public Customer can submit it is consistent with the Act. The Exchange proposes to remove this restriction so that any market participant may enter this order type. The Exchange believes that making these order types available to all market participants removes impediments to and perfects the mechanism of a free and open market and a national market system. The Exchange's proposal to add an OPG TIF as an available TIF for the trading floor will provide greater clarity to the Exchange's rules as this TIF is available on the trading floor and was erroneously omitted from the list of order types. Today, the TIF is available for floor participants. Any floor participant may enter the TIF of OPG on the trading floor. The remainder of the proposed changes are non-substantive numbering amendments.

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. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform. The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act.

Options 2, Section 6

The Exchange believes that this proposal does not impose an undue burden on inter-market competition because each options exchange generally determines permissible order types for market makers in its trading environment based on the exchange's individual business policy, objectives, and trading system.

The Exchange's proposal reflects its policy and objectives, and does not impose an undue burden on intra-market competition because it treats all Market Makers uniformly with respect to permissible order types. Market Makers, unlike other market participants, are required to abide by certain quoting requirements in the options classes in which they are appointed pursuant to Options 2, Section 5, in order to maintain the status of a Market Maker. The Exchange also notes that Options 2, Section 6(b) restricts the number of orders that a Market Maker may enter in an options class to which the Market Maker is not appointed. The Exchange believes that permitting a Market Maker to enter additional eligible order types, except Customer Cross Orders and Reserve Orders, in their appointed options class will permit Market Makers additional latitude to conduct business on Phlx and effectively compete with other market makers on other options exchanges.

Options 3, Section 4

Phlx's proposal to amend Options 3, Section 4(b)(6) to permit member organizations to configure their ports to instruct the Exchange to immediately cancel a quote that would otherwise cause a locked or crossed market violation in lieu of re-pricing the quote does not impose an undue burden on inter-market competition because other options exchanges may offer similar functionality.

The proposal does not impose an undue burden on intra-market competition because all Market Makers may utilize the functionality when entering quotes into the System.

Options 3, Section 6

The Exchange's proposal to discontinue Quote Exhaust does not impose an inter-market burden on competition as other exchanges may determine to adopt or discontinue a similar functionality.

The Exchange's proposal to discontinue Quote Exhaust does not impose an intra-market burden on competition as no member organization would be subject to the Quote Exhaust functionality. Further, with respect to the interaction between the Quote Exhaust and risk protections, the proposal does not impose an intra-market burden on competition because instead of first being posted at the Quote Exhaust Reference Price, aggressively priced orders would be able to post to the order book immediately at the ATR Threshold, which would allow for quicker order execution while still providing order exposure and pauses between price bands, which continues to allow for risk mitigation. Once discontinued, the Exchange's quoting functionalities will abide by Phlx Options 3, Section 4 which governs the entry and display of orders and the allocation methodology in Options 3, Section 10. Finally, Phlx offers other risk protections to member organizations including an Acceptable Trade Range protection at Options 3, Section 15(b)(1), an Anti-Internalization protection at Options 3, Section 15(c)(1), and an Automated Quotation Adjustments protection at Options 3, Section 15(b)(2).

The Exchange's proposal to adopt a new rule in Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 does not impose an inter-market burden on competition as other exchanges may adopt a similar rule.

The Exchange's proposal to adopt a new rule in Options 3, Section 6 that is identical to ISE, GEMX and MRX Options 3, Section 6 does not impose an intra-market burden on competition as this rule will apply uniformly to all quotations entered on the Exchange.

Options 3, Section 7

The Exchange's proposal to amend Phlx's existing order types so that they are identical to order types available on ISE, GEMX and MRX Options 3, Section 7 and to adopt new order types such as a Fill-or-Kill Order, Reserve Order, and Attributable Order does not impose an inter-market burden on competition as other exchanges may determine to adopt similar order types.

The Exchange's proposal to amend Phlx's existing order types so that they are identical to order types available on ISE, GEMX and MRX Options 3, Section 7 and to adopt new order types such as a Fill-or-Kill Order, Reserve Order, and Attributable Order does not impose an intra-market burden because all market participants would be able to utilize all of the order types, except Market Makers with respect to Reserve Orders. The Exchange's proposal would permit Market Makers (and Lead Market Makers) to enter

Market Orders and Stop Orders. All non-Public Customers would be permitted to enter AON Orders and Off-Floor Broker Dealers would not be restricted from entering AON Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders. Restricting Market Makers (and Lead Market Makers) from entering Reserve Orders does not impose an intra-market burden on competition because Market Maker (and Lead Market Maker) liquidity should be displayed, and Reserve Orders have non-displayed portions of liquidity.

Finally, the Exchange would no longer classify a market participant as an Off-Floor Broker Dealer because it is eliminating that category.

Options 3, Section 8

The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, to make clarifying rule changes, add System detail concerning new order types, and adjust rounding does not impose an inter-market burden because other exchanges may adopt similar functionality. Today, ISE, GEMX and MRX Options 3, Section 8 contains similar functionality.

The Exchange's proposal to amend Options 3, Section 8, Options Opening Process, to make clarifying rule changes, add System detail concerning new order types, and adjust rounding does not impose an intra-market burden because all market participants would be subject to the Opening Process. The Exchange is removing limitations to routing Public Customer and Professional interest from the Opening Process.

Options 3, Section 9

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3) and make other minor changes does not impose an inter-market burden because other exchanges may adopt similar functionality.

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, to mirror the treatment of Stop Orders in ISE, GEMX and MRX Options 3, Section 9(d)(3) and make other minor changes does not impose an intra-market burden because all market participants would be subject to the Trading Halts rule.

Options 3, Section 10

The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, to round up does not impose an inter-market burden because other exchanges may adopt similar rounding. The Exchange's proposal to amend Options 3, Section 10, to only offer the Directed Market Maker allocation if a Directed Market Maker's quote is at the better of the internal PBBO or the NBBO and not an order does not impose an inter-market burden because ISE, GEMX and MRX Options 3, Section 10(c)(1)(C) also allocate the Directed Market Maker enhancement in this manner. The Exchange's proposal to amend the Entitlement for Orders of 5 contracts or fewer to increase the percentage from 25% to 40% does not impose an inter-market burden on competition because ISE, GEMX and MRX Options 3, Section 10(a)(1)(D) provides for the same percentage.

The Exchange's proposal to amend Options 3, Section 10, Electronic Execution Priority and Processing in the System, to round up does not impose an intra-market burden because the Exchange is opting to round up and not down, uniformly and the proposed rounding methodology provides for the equitable allocation of contracts among the Exchange's market participants. The Exchange’s proposal to amend Options 3, Section 10, to only offer the Directed Market Maker allocation if a Directed Market Maker’s quote is at the better of the internal PBBO or the NBBO and not an order does not impose an intra-market burden because the Directed Market Maker only has corresponding obligations related to quoting. The Exchange’s proposal to amend the Entitlement for Orders of 5 contracts or fewer to increase the percentage from 25% to 40% does not impose an intra-market burden on competition because the Exchange will continue to evaluate all Market Makers in accordance with the proposed new obligation which is the same obligation that exists on other options exchanges today such as ISE, GEMX and MRX Options 3, Section 10(a)(1)(D). If Phlx were to continue to review its member organizations for compliance with the 25% threshold it would remain at a competitive disadvantage to other options markets that have a 40% threshold thereby making Phlx a less attractive venue for market making.

Options 3, Section 15

As it relates to inter-market competition, the Exchange notes that the basis for the majority of the proposed rule changes in this filing are aligning with the rules of BX, NOM, ISE, GEMX or MRX, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. As noted above, the proposed changes to the risk protections will provide more consistent technology offerings across the Nasdaq affiliated exchanges, and for this reason, the Exchange does not believe its proposal will impose an undue burden on intermarket competition. The

Exchange also notes that market participants on other exchanges are welcome to become participants on the Exchange if they determine if this proposed rule change has made Phlx a more attractive or favorable venue.

All of the proposed changes related to the risk protections (OPP, MWRP, Acceptable Trade Range, Anti-Internalization, Quotation Adjustments, Post-Only Quoting Protection and Active Quote Protection) do not impose an undue burden on intra-market competition as they are all aimed at mitigating market participant risk associated with trading on the Exchange. The proposed changes are designed to benefit market participants in that they will provide a more consistent technology offering for market participants on Nasdaq affiliated exchanges. The Exchange also notes that some of the proposed risk controls (e.g., Delta and Vega Thresholds and Post Only Quoting Protection) are completely voluntary. The Post-Only Quoting Protection proposal does not impose a burden on inter-market competition, because member organizations may choose to become market makers on a number of other options exchanges, which may have similar but not identical features. The Exchange does not believe that the proposed Active Quote Protection functionality will impose any undue burden on intra-market competition as it is aimed at mitigating exposure to excessive risk when trading on the Exchange. While the Exchange will offer the proposed functionality to Market Makers only, the proposed risk protection is intended to provide Market Makers with an additional tool to manage their risk parameters in a manner they deem appropriate. As such, the Exchange believes that the proposed functionality may facilitate Market Makers' provision of liquidity on the Exchange, thereby benefitting all market participants through additional execution opportunities at potentially improved prices.

Offering Market Makers the ability to configure their quotes as Post-Only will allow all market participants on Phlx to add liquidity only if desired. Further, the proposed risk protection allows Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the order book upon entry, thereby protecting investors and the general public as Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing and enhanced allocations. Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to Phlx by allowing Market Makers to provide as much liquidity as possible. Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis[145] and are subject to various obligations associated with providing liquidity on the market.[146] Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.

Options 3, Section 23

As it relates to the elimination of fees for TradeInfo from Options 7, the Exchange believes that its proposal does not impose an undue burden on competition because TradeInfo would no longer be available to any Members. The Exchange notes that

[145] See Phlx Options 2, Section 5.

[146] See Phlx Options 2, Section 4.

members can continue to receive similar information through CTI, which is available to all member organizations, and FIX can be used to cancel orders today, which is also available to all members.

Options 3, Section 28

The Exchange believes that introducing the optional quantity and notional value risk protections does not impose an undue burden on inter-market competition as the identical functionality exists on ISE, GEMX and MRX at Options 3, Section 28.

The Exchange believes that introducing the optional quantity and notional value risk protections does not impose an undue burden on intra-market competition as it will provide market participants with another tool to manage their order risk.

Options 5, Section 4

The Exchange's proposal to amend its routing rule, similar to ISE Options 5, Section 4, with respect to FIND Orders and SRCH Orders, does not impose an undue burden on inter-market competition because the Exchange will provide Phlx member organizations the same choices with respect to routing that is afforded to ISE members today.

The Exchange's proposal to amend its routing rule, similar to ISE Options 5, Section 4, with respect to FIND Orders and SRCH Orders does not impose an undue burden on intra-market competition because the proposed routing rules apply to all market participants including routing during an Opening Process. The Exchange believes that adding greater detail to its rules does not impose an undue burden on intra-market competition, rather it provides greater transparency as to the potential outcomes when utilizing different routing strategies. As is the case today, market participants may elect not to route their orders.

Options 6, Section 1

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not impose an undue burden on inter-market competition because other market today have the same Give-Up process.[147]

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not impose an undue burden on intra-market competition, rather it will permit both floor and electronic members to indicate a Give-Up at the time of trade. Today, electronic trading members indicate a Give-Up in the post allocation process. The proposal will create a uniform process for Give-Up for all member organizations and harmonize Phlx's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1.

Options 8, Section 32

The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that it can only be submitted by a Public Customer does not impose an undue burden on inter-market competition because other markets today offer the All-or-None Order to all market participants.[148]

The Exchange's proposal to amend an All-Or None Order at current Options 8, Section 32(b)(3) to remove the restriction that it can only be submitted by a Public Customer does not impose an undue burden on intra-market competition because all Phlx

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[147] See ISE, GEMX and MRX Options 6, Section 1.

[148] ISE, GEMX and MRX offer All-or-None Orders to all market participants. See ISE, GEMX and MRX Options 3, Section 7(c).

members will be able to utilize this order type. The Exchange's proposal to add an OPG TIF as an available TIF for the trading floor does not impose an undue burden on intra-market competition because all Phlx members will be able to utilize this TIF.

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[149] and subparagraph (f)(6) of Rule 19b-4 thereunder.[150]

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.

149 15 U.S.C. 78s(b)(3)(A)(iii).

150 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.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's internet comment form (https://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include file number SR-Phlx-2024-71 on the subject line.

Paper Comments:

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

All submissions should refer to file number SR-Phlx-2024-71. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (https://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-Phlx-2024-71 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[151]

Sherry R. Haywood,

Assistant Secretary.

[151] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq PHLX LLC Rules

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Options Rules

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Options 2 Options Market Participants

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Section 6. Market Maker Orders

(a) Market Makers [and Lead Market Makers]may enter all order types defined in Options 3, Section 7(b) and 14 in the options classes to which they are appointed and non-appointed, except for [Market Orders as provided in Options 3, Section 7(b)(1), Stop Orders as provided in Options 3, Section 7(b)(4), All-or-None Orders as provided in Options 3, Section 7(b)(5), Directed Orders as provided for in Options 2, Section 10, and Public Customer-to-Public] Customer Cross Orders subject to Options 3, Section 12(a)[13(a) and (f)] and Reserve Orders subject to Options 3, Section 7(g).

(b) The total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

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Options 3 Options Trading Rules

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Section 4. Entry and Display of Quotes

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(b) Quotes are subject to the following requirements and conditions:

* * * * *

(6) **Trade-Through Compliance and Locked or Crossed Markets**. A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed and displayed at one minimum price variance above (for offers) or below (for

bids) the national best price, or immediately cancelled, as configured by the member organization.

* * * * *

(8) Quotes submitted to the System are subject to the following: minimum increments provided for in Options 3, Section 3, and risk protections provided for in Options 3, Section 15[and Quote Exhaust provided for in Options 3, Section 6].

* * * * *

Section 6. [Firm Quotations]Collection and Dissemination of Quotes

(a) Each Market Maker shall communicate to the Exchange its bid and offers in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act and the Rules of the Exchange.

(b) The Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available to Public Customer Orders, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act.

(c) *Unusual Market Conditions*.

(1) An Exchange official designated by the Board shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be “fast.” When a market for an option is declared fast, the Exchange will provide notice that its quotations are not firm by appending an appropriate indicator to its quotations.

(2) If a market is declared fast, designated Exchange officials shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Options 3, Section 8; (ii) suspend the minimum size requirement of Options 2, Section 5(c)(1); or (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(3) The Exchange will monitor the activity or conditions that caused a fast market to be declared, and a designated Exchange official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a designated Exchange official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations.

(4) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then a designated Exchange official shall halt trading in the class or classes so affected.

[(a) *Definitions*.

(1) The term "disseminated price" shall mean the bid (or offer) price for an options series that is made available by the Exchange and displayed by a quotation vendor on a terminal or other display device.

(2) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:

(A) Except as provided in sub-paragraph (a)(ii)(C)(3) below, at least the sum of the size associated with Limit Orders, Lead Market Makers' quotations, SQTs' quotations, and RSQTs' (as defined in Options 1, Sections 1(b)(54) and (49), respectively) quotations.

(B)

(1) If an SQT or RSQT's (other than a Directed SQT or RSQT) quotation size in a particular series in a Streaming Quote Option is exhausted or removed by the Automated Quotation Adjustments pursuant to Options 3, Section 15(c)(2), such SQT or RSQT's quotation shall be deleted from the Exchange's disseminated quotation until the time the SQT or RSQT revises his/her quotation.

(2) Quote Exhaust. Respecting options that are traded on the System, Quote Exhaust occurs when the Exchange's disseminated market at a particular price level includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order through the initial execution price. The initial execution price that gives rise to Quote Exhaust is known as the "reference price." Under Quote Exhaust, any order volume that is routed to away markets will be marked as an ISO.

(a) Quote Exhaust Timer. When a Quote Exhaust occurs, the System will initiate a "Quote Exhaust Timer" that will apply to all options traded on the System, not to exceed one second, during which any participant (including any participant(s) whose size was exhausted) may submit quotes, sweeps or orders at any price level.

(b) During the Quote Exhaust Timer, the Exchange will disseminate the reference price for the remaining size, provided that such price does not lock an away market, in which case, the Exchange will disseminate a bid and offer that is one Minimum Price Variation ("MPV") from the away market price. The Exchange will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the

Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

If the remaining contracts in the initiating quote or order are either traded or cancelled during the Quote Exhaust Timer, the Quote Exhaust Timer will be terminated and normal trading will resume.

(c) New Interest on the Opposite Side of the Market. If the Exchange receives an order, quote or sweep on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that locks or crosses the reference price at any time during the Quote Exhaust Timer, it will execute immediately against the initiating quote or order at the reference price. If the initiating quote or order that caused the Quote Exhaust is exhausted, the Quote Exhaust Timer will be terminated. With respect to any order, quote or sweep received on the opposite side of the market from the initiating quote or order during the Quote Exhaust Timer that is inferior to the reference price, the system will place any non-IOC order onto the book. Such non-IOC order on the book will be included in the first PBBO calculation following the end of the Quote Exhaust Timer. All non-marketable sweeps and IOC orders will be cancelled immediately if not executed and will not participate in the Quote Exhaust process.

(d) New Interest on the Same Side of the Market. If the Exchange receives an order, quote or sweep on the same side of the market as the initiating quote or order during the Quote Exhaust Timer, the System will cancel any such sweep or IOC order. If such new quote or order, other than an IOC order, is a market or marketable Limit Order or marketable quote (i.e., priced at or through the reference price) the System will display it at the reference price, with a disseminated size that is the sum of such order and/or quote plus the remaining contracts in the initiating order or quote.

(e) End of the Quote Exhaust Timer. At the end of the Quote Exhaust Timer, if there are still unexecuted contracts remaining in the initiating quote or order or any new interest on the same side of the market, the System will calculate a new Phlx Best Bid/Offer ("PBBO"). The PBBO will include the remaining unexecuted portion of the initiating quote or order plus any new interest received on the same side of the market at the reference price, or if locking or crossing the ABBO, at one minimum trading increment away from the ABBO, for the full available size. The other side of the PBBO will be the actual Exchange interest at the best price.

The System will conduct an Acceptable Range price "test" (as described below) to determine whether there is a valid next available price at which the System may execute the remaining unexecuted contracts.

(f) Acceptable Range Test. The System will conduct an Acceptable Range Test to determine if the next available price on the Exchange is within an Acceptable Range. The System will calculate the Acceptable Range for the next available price by taking the reference price, plus or minus a value to be determined by the

Exchange. (*i.e.*, the reference price - (x) for sell orders and the reference price + (x) for buy orders).

(g) Quote Exhaust Resolution. The System will first determine whether to trade at the next available Phlx price by comparing it to the Acceptable Range price (defined as, with respect to an initiating buy order, the highest price of the Acceptable Range, and, with respect to an initiating sell order, the lowest price of the Acceptable Range) and the Away Best Bid/Offer ("ABBO") price to establish a "Best Price."

(1) With respect to an initiating buy order, the Best Price is the lowest price of: (A) the next available Exchange offer; (B) the ABBO offer; or (C) the Acceptable Range price on the offer side of the market. With respect to an initiating sell order, the Best Price is the highest price of (D) the next available Exchange bid; (E) the ABBO bid; or (F) the Acceptable Range price on the bid side of the market.

(2) Initiating quote or order does not lock or cross Best Price. If the price of the initiating quote or order (if a Limit Order) does not lock or cross the Best Price, the System will post the remaining portion of the initiating quote or order at its limit price and normal trading will resume.

(3) Initiating quote or order locks Best Price. If the initiating quote or order locks the Best Price, the system will execute, route if a routable order, and/or post, the initiating quote or order as follows:

(A) If the Best Price is the Exchange's next available price:

(1) standing alone, the system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size

(2) and is equal to the ABBO price, any remaining unexecuted routable order volume from the execution on the Exchange will be routed away. After such routing, any remaining unexecuted contracts will be posted on the Exchange at the ABBO price;

(3) and is equal to the Acceptable Range price, any remaining unexecuted contracts from the execution on the Exchange will be posted at the Acceptable Range price;

(4) and is equal to both the ABBO price and the Acceptable Range price, any remaining order volume from the execution on the Exchange will be routed away and, after such routing, any remaining unexecuted contracts will be posted on the Exchange at the Acceptable Range price.

(B) If the Best Price is the ABBO where the ABBO is not equal to the next Phlx price:

(1) standing alone, the initiating order will be routed away up to the size of the ABBO and, after routing, any remaining unexecuted contracts from the initiating order will be posted on the Exchange at the ABBO price;

(2) and is equal to the Acceptable Range price, the initiating order will be routed away and, after such routing, any remaining unexecuted contracts will be posted on the Exchange at the ABBO price;

(3) if the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price.

(4) Initiating quote or order crosses Best Price. If the initiating quote or order crosses the Best Price, the System will execute, route order volume, and/or post the initiating quote or order as set forth below:

(A) If the Best Price is the Exchange's next available price

(1) standing alone, the System will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size;

(2) and is equal to the ABBO price, the System will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining order volume from the execution on the Exchange will be routed away to the ABBO market(s);

(3) and is equal to the Acceptable Range price, the System will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining volume from the execution on the Exchange will be posted at the Acceptable Range price for the remaining size, for a period of time not to exceed ten seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the System will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(4) and is also equal to both the ABBO price and the Acceptable Range price, any remainder order volume from the execution on the Exchange will be routed away, and if after such routing, there still remain unexecuted contracts, the unexecuted contracts would post to the Order Book at their Limit Order price, with a new timestamp, subject to order entry price checks.

(B) If the Best Price is the ABBO:

(1) standing alone, the initiating order will be routed away to the ABBO market(s);

(2) and is equal to the Acceptable Range price, the initiating order will be routed away and if after routing there remain unexecuted contracts, the remainder of the order will be posted on the Phlx at the ABBO price for a period not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this period, the System will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(C) If the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price for a period of time not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this up to ten second period, the System will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.

(5) Non-routable orders. If the initiating order is non-routable when the order would otherwise be routed according to the process described above, the order will be posted on the Exchange at a price that is one minimum trading increment inferior to the Best Price so as not to lock an away market.

(6) If, after trading at the Phlx and/or routing, there is a remainder of the initiating order, and such remainder is still marketable, the entire process of evaluating the Best Phlx price and the ABBO will be repeated until: (A) the order size is exhausted, or (B) the order reaches its limit price. If there still remain unexecuted contracts after routing but the order has reached its limit price, the remainder will be posted at the order's limit price, except that, when the limit price crosses the Acceptable Range Price, the remainder will be posted at the Acceptable Range Price for a period of time not to exceed ten seconds. During this up to ten second period, the System will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a

non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. After such time period, the Acceptable Range Price becomes the Reference Price and Acceptable Trade Range (pursuant to Options 3, Section 15) is applied to the remaining size of the order.

(3)

(a) If there are no offers both on the Exchange and on away markets in the affected series, Market Orders to buy in the affected series will be rejected, and an electronic report of such cancellation will be transmitted to the sender.

(b) If there are no offers on the Exchange and there are offers on away markets in the affected series, Market Orders to buy will be handled pursuant to Exchange Options 5, Section 4.

(c) If there are no bids or a zero priced bid on the Exchange and there are no bids on away markets in the affected series, the Exchange will disseminate a bid price of zero, and Market Orders to sell will be handled pursuant to Options 3, Section 10(b).

(d) If there are no bids or a zero priced bid on the Exchange and there are bids on away markets in the affected series, Market Orders to sell will be handled pursuant to Options 5, Section 4.

(C) The Exchange shall disseminate an updated bid and offer price, together with the size associated with such bid and offer, when:

(1) the Exchange's disseminated bid or offer price increases or decreases;

(2) the size associated with the Exchange's disseminated bid or offer decreases; or

(3) the size associated with the Exchange's bid (offer) increases by an amount greater than or equal to a percentage (never to exceed 20%) of the size associated with previously disseminated bid (offer). Such percentage, which shall never exceed 20%, shall be determined on an issue-by-issue basis by the Exchange and announced to membership via Exchange circular.

(3) The term "SEC Quote rule" shall mean rule 602 of Regulation NMS under the Exchange Act, as amended.

(4) The terms "customer," "responsible broker or dealer," and "specified persons" shall have the meaning set forth in the SEC Quote rule.

(b)

(1) Except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer

orders at the disseminated price in an amount up to the disseminated size. If the responsible broker or dealer is representing (as agent) a Limit Order, such responsible broker or dealer shall be responsible (as agent) up to the size of such Limit Order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such Limit Order to the extent provided in General 2, Section 17.

(2) In the event an SQT, RSQT or Lead Market Maker in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or Lead Market Maker member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

(c) The requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by an Options Exchange Official; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.

Any exemption granted pursuant to paragraph (c)(iv) shall be in writing and shall set forth the basis upon which the exemption is granted.

(d) If responsible brokers or dealers receive an order to buy or sell a listed option at the disseminated price in an amount greater than the disseminated size, such responsible broker or dealer shall, within thirty (30) seconds of receipt of the order, (i) execute the entire order at the disseminated price (or better), or (ii) execute that portion of the order equal to the disseminated size at the disseminated price (or better), and revise its bid or offer.

Supplementary Material to Options 3, Section 6

.01 For purposes of this Rule, the term "broker-dealer orders" includes orders for the account(s) of market makers on another exchange and Market Makers on the Exchange.

.02 *Locked Markets*. In the event that an SQT, RSQT, and/or Lead Market Maker's electronically submitted quotations interact with the electronically submitted quotations of other SQTs, RSQTs and/or the Lead Market Maker, the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Options 3, Section 10.

.03 *Crossed Markets*. The Exchange will not disseminate an internally crossed market (e.g., $1.10 bid, 1.00 offer). If an SQT, RSQT or Lead Market Maker electronically submits a quotation ("incoming quotation") that would cross an existing quotation ("existing quotation"), the Exchange will change the incoming quotation such that it locks the existing quotation and automatically execute the locked quotations against each other in accordance with the allocation algorithm set forth in Options 3, Section 10.]

Section 7. Types of Orders and Order and Quote Protocols

The Exchange may determine to make certain order types and time-in-force, respectively, available on a class or System basis. Orders may not be unbundled, nor may a firm solicit a customer to unbundle an order for this purpose.

(a) **Market Orders**. A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Member organizations can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the member organization once an options series has opened for trading. Market Orders on the order book would be immediately cancelled if an options series is halted, provided the member organization designated the cancellation of Market Orders.

(b) **Limit Orders**. A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

(1) **Marketable Limit Orders**. A Marketable Limit Order is a Limit Order to buy (sell) at or above (below) the best offer (bid) on the Exchange.

(2) **Fill-or-Kill Orders**. A Fill-or-Kill Order is a Limit Order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled.

(3) **Intermarket Sweep Orders**. An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Options 5, Section 1(h). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs must have a TIF designation of IOC. ISOs may not be submitted during the Opening Process pursuant to Options 3, Section 8. ISOs may be entered on the single leg order book or into the Price Improvement Mechanism, pursuant to Supplementary Material .08 to Options 3, Section 13.

(c) **All-Or-None Orders**. An All-Or-None ("AON") Order is a Limit or Market Order that is to be executed in its entirety or not at all. An AON Order may only be entered as an Immediate-or-Cancel Order. AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. AON Orders may not be submitted during the Opening Process.

(d) **Stop Orders**. A Stop Order is an order that becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order.

(e) **Stop Limit Orders** A Stop Limit Order is an order that becomes a Limit Order when the stop price is elected. A Stop Limit Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Limit Order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. A Stop Limit Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order.

(f) **Cancel and Replace Orders**. Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(a)(1) and Options 3, Section 15(a)(2) the existing order shall be cancelled and not replaced.

(g) **Reserve Orders**. A Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion.

(1) Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book.

(2) The displayed portion of a Reserve Order shall be ranked at the specified limit price and the time of order entry.

(3) The displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, and Options 3, Section 10(a)(1)(F) for non- Public Customer Orders.

(4) Reserve Orders may be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the member organization.

(5) When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. If the

displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, Options 3, Section 10(a)(1)(E) for Market Makers, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders.

(6) The initial non-displayed portion of a Reserve Order rests on the order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in paragraph (5) above. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order will trade in accordance with Options 3, Section 10(a)(1)(A) for Public Customer Orders, Options 3, Section 10(a)(1)(E) for Market Makers, and Options 3, Section 10(a)(1)(F) for non-Public Customer Orders.

(h) **Attributable Orders**. An Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. The Exchange will issue an Options Regulatory Alert specifying the Systems for which the Attributable Order type shall be available.

(l) **Directed Orders**. A Directed Order is as described in Options 2, Section 10.

(m) Reserved.

(n) **Add Liquidity Orders**. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Member organizations may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned, if an Add Liquidity Order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading.

(o) Reserved.

(p) Reserved.

(q) Reserved.

(r) Reserved.

(s) Reserved.

(t) Reserved.

(u) **Opening Sweep**. An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments and Market Wide Risk Protection. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b)(i) and will be cancelled upon the open if not executed.

(w) Reserved.

(x) Reserved.

(y) **PIXL Order**. A PIXL Order is as described in Options 3, Section 13(a).

Supplementary Material to Options 3, Section 7

.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:

(a) **Day**. An order to buy or sell entered with a TIF of "DAY," which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day orders unless otherwise specified. Day orders may be entered through FIX.

(b) **Good-Till-Canceled**. An order to buy or sell entered with a TIF of "GTC" remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract.

(c) **Good-Till-Date**. An order to buy or sell entered with a TIF of "GTD," which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract.

(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 or SQF, provided that an IOC order entered by a Market Maker through the SQF 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)(2), and (b)(2) respectively, for single leg orders.

(e) **Opening Only**. An Opening Only ("OPG") order is entered with a TIF of "OPG." This order can only be executed in the Opening Process pursuant to Options 3, Section 8. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation and Market Wide Risk Protection. Any portion of the order that is not executed during the Opening Process is cancelled. OPG Orders may not route.

[(a) **Entry and Display of Orders and Quotes**. member organizations may enter orders and quotes into the System as specified below.]

[(i)].03 The Exchange offers members the following protocols for entering orders and quotes respectively:

(A) "**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 and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications; and (4) post trade allocation messages.

(B) "**Specialized Quote Feed**" or "**SQF**" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from 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) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2) and (b)(2), respectively.

(C) **Options Floor Based Management System or ("FBMS")** is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible pursuant to Options 8, Section 22(a), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Options 8, Sections 28(e) and 29. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.

.04 **Routing Strategies**. Orders may be entered on the Exchange with a routing strategy of FIND or SRCH, or, in the alternative, an order may be marked as Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX only.

[(b) **Order Types**. The following order types may be submitted to the System:

(1) **Market Order**. A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Lead Market Makers, Market Makers and Off-Floor Broker-Dealers may not submit Market Orders.

(2) **Limit Order.** A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

(3) **Intermarket Sweep Order.** An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Options 5, Section 1. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism ("PIXL") pursuant to Options 3, Section 13 (b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Options 3, Section 8.

(4) **Stop Order.** A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. A Stop Order shall not be elected by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Lead Market Makers and Maker Makers may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order.

(A) A Stop-Limit Order to buy becomes a Limit Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A Stop-Limit Order to sell becomes a Limit Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

(B) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.

(C) A Stop Order is a non-displayed, contingency order until elected.

(5) **All-or-None Order**. An All-or-None Order is a Limit Order or Market Order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a

Public Customer as an Immediate-or-Cancel Order. The Acceptable Trade Range protection in Options 3, Section 15(a) is not applied to All-Or-None Orders.

(6) **Opening Sweep**. An Opening Sweep is a one-sided order entered by a Lead Market Maker or Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8 and will be cancelled upon the open if not executed.

(7) **Cancel-Replacement Order**. A Cancel-Replacement Order is a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will result in a loss of priority.

* * * * *

(9) **PIXL Order.** A PIXL Order is as described in Options 3, Section 13.

* * * * *

(11) **Directed Orders**. A Directed Order is as described in Options 2, Section 10.

* * * * *

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

(1) **Day**. If not executed, an order entered with a TIF of "Day" expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(2) **Immediate-or-Cancel**. An Immediate-or-Cancel ("IOC") Order entered with a TIF of "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

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

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a Market Maker or Lead Market Maker through SQF is not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively, or Size Limitation within Options 3, Section 16(e).

(C) Orders entered into the Price Improvement XL ("PIXL") Mechanism and Qualified Contingent Cross ("QCC") Mechanism 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.

(3) **Opening Only**. An Opening Only ("OPG") order is entered with a TIF of "OPG". This order can only be executed in the Opening Process pursuant to Options 3, Section 8. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route.

(4) **Good Til Cancelled**. A Good Til Cancelled ("GTC") Order entered with a TIF of GTC, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

(d) Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX only.

(e) **Off-Floor Broker-Dealer Order**. An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Options 3, Section 13(a) and (f).

(f) Orders may not be unbundled, nor may a firm solicit a customer to unbundle an order for this purpose.]

Section 8. Options Opening Process

* * * * *

(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders, including Opening Only Orders, but excluding orders with a Time in Force of "Immediate-or-Cancel" and Add Liquidity Orders. Quotes, other than Valid Width Quotes, will not be included in the Opening Process. The displayed and non-displayed portions of Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process. Non-SQT Market Makers may submit orders.

* * * * *

(h) **Potential Opening Price**. The Potential Opening Price indicates a price where the System may open once all other Opening Process criteria is met. To calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders) for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (i)(A)(iii) and (j)(5) - (7) below contain additional provisions related to Potential Opening Price.

(A) More Than One Potential Opening Price. When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded <u>up</u> to the minimum price variation[that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price].

* * * * *

(j) The System will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above. OQR is constrained by the least aggressive limit prices within the broader limits of OQR such that the least aggressive buy order or Valid Width Quote bid and least aggressive sell order or Valid Width Quote offer within the OQR further bounds the OQR.

* * * * *

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the System to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (h) above. The System will route routable [Public Customer and Professional] interest pursuant to Options 3, Section 10(a)[(1)(A)].

(k) **Price Discovery Mechanism**. If the Exchange has not opened pursuant to paragraphs (f) or (i) above, after the OQR calculation in paragraph (j), the Exchange will conduct the following Price Discovery Mechanism.

* * * * *

(C) Next, provided the option series has not opened pursuant to (k)(B) above, the System will:

* * * * *

(6) The System will execute orders at the Opening Price that have contingencies <u>(such as, without limitation, Reserve Orders)</u> and non-routable orders, such as a "Do Not Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency [Public Customer and Professional] orders<u>, except that Reserve Orders may route up to their full volume</u>.

* * * * *

(D) Pursuant to Options 3, Section 8(k)(C)(6), the System will re-price Do Not Route orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to the current away best offer (for bids) or the current away best bid (for offers) as non-displayed, and display at a price that is one minimum trading increment inferior to the ABBO, and disseminate the re-priced DNR Order as part of the new PBBO. The System will cancel any order or quote that is priced through the Opening Price. All other interest will be eligible for trading after opening.

* * * * *

(l) Opening Process Cancel Timer. The Opening Process Cancel Timer represents a period of time since the underlying market has opened, and shall be established and disseminated by Phlx on its website. If an option series has not opened before the conclusion of the Opening Process Cancel Timer, a member may elect to have orders returned by providing written notification to the Exchange. These orders include all non Good -Til-Cancel[led] Orders and Good-Till-Date Orders received over the FIX protocol.

* * * * *

Section 9. Trading Halts

* * * * *

(d) Capitalized terms used in this paragraph shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

(1) The Exchange will not open an affected option.

* * * * *

(3) After the [o]Opening Process, if a Stop Order is elected, [the Exchange shall elect Stop Orders,] as defined in Options 3, Section 7(d)[32(c)(2), and,] because they become Market Orders, the System shall cancel them back and notify market [P]participants of the reason for such [rejection]cancellation

(4) When evaluating whether a Market Maker or Lead Market Maker has met the continuous quoting obligations of Options 2, Section 5(c)(2)(A) and (B), respectively, in options overlying NMS stocks, the Exchange will not consider as part of the trading day the time that an NMS stock underlying an option was in a Limit State or Straddle State.

(5) Electronic trades are not subject to an obvious error or catastrophic error review pursuant to Options 3, Section 20(c) or (d). Nothing in this provision shall prevent electronic trades

from review on Exchange motion pursuant to Options 3, Section 20(c)(3), or subject to nullification or adjustment pursuant to Options 3, Section 20(e) - (k).

* * * * *

(f) During a halt, the Exchange will maintain existing orders on the book (but not existing quotes)[, except as noted in Options 5, Section 4], accept orders and quotes, and process cancels. During a halt, existing quotes are cancelled and auction orders and auction responses, as well as Crossing Orders, are rejected.

* * * * *

Section 10. Electronic Execution Priority and Processing in the System

(a) Execution Algorithm - The Exchange will apply a Size Pro-Rata execution algorithm to electronic orders, unless otherwise specified. The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. If the result is not a whole number, it will be rounded [down]<u>up</u> to the nearest whole number[, unless otherwise specified]. Size Pro-Rata Priority shall mean that resting orders and quotes in the order book are prioritized according to price. If there are two or more resting orders or quotes at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes <u>beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price</u>[proportionally according to size, based on the total number of contracts available to be executed at that price]. <u>If there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining.</u>

(1) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange will apply the following designated market participant priority overlays. No participant shall be entitled to receive a number of contracts that is greater than the displayed size that is associated with their quotation or order.

* * * * *

(B) **Enhanced Lead Market Maker Priority**: A Lead Market Maker may be assigned by the Exchange in each option class in accordance with Options 2, Section 12. After all Public Customer orders have been fully executed, provided the Lead Market Maker's quote is at the better of the internal PBBO or the NBBO the Lead Market Maker may be afforded a participation entitlement. The Lead Market Maker shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such Lead Market Maker. The Lead Market Maker shall be entitled to receive the allocation described in this paragraph (a)(1)(B)(i), unless the order is a Directed Order and the Lead Market Maker is not the Directed Market Maker.

* * * * *

When the Lead Market Maker is also the Directed Market Maker[ROT] the Lead Market Maker/Directed Market Maker does not participate in the below Market Maker Priority at (a)(i)(E).

(C) **Directed Market Maker Priority**: After all Public Customer orders have been fully executed, upon receipt of a Directed Order pursuant to Options 2, Section 10, provided the Directed Market Maker's quote [or market maker order] is at the better of the internal PBBO or the NBBO, the Directed Market Maker will be afforded a participation entitlement. This participation entitlement will be considered after the Opening Process.

* * * * *

If there are multiple quotes [or orders] for the same Directed Market Maker at the same price which are at the better of the internal PBBO or the NBBO when the Directed Order is received, the Directed Market Maker participation entitlement shall apply only to the Directed Market Maker quote [or order]which has the highest priority. The Directed Market Maker quote [or order]that received the Directed Order may not receive any further allocation of the Directed Order, except as noted in subparagraph (a)(1)(E) below. [If rounding would result in an allocation of less than one contract, the Directed Market Maker shall receive one contract.]

(D) **Entitlement for Orders of 5 contracts or fewer**. This Entitlement for Orders of 5 contracts or fewer shall be allocated to the Lead Market Maker as described below. The allocation will only apply after the Opening Process and shall not apply to auctions. A Lead Market Maker is not entitled to receive a number of contracts that is greater than the size that is associated with its quote. On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Lead Market Makers, and will reduce the size of the orders included in this provision if such percentage is over [25]40%.

* * * * *

(ii) If the Lead Market Maker's quote is at the better of the internal PBBO or the NBBO, with other Public Customer (including when the Lead Market Maker is also the Directed Market Maker) or other Directed Market Maker interest with a higher priority at the time of execution, a Lead Market Maker is not entitled to priority with respect to Orders of 5 contracts or fewer, however the Lead Market Maker is eligible to receive such contracts pursuant to paragraph (a)(1)(E)[; thereafter orders will be allocated pursuant to paragraph (a)(1)(F)].

* * * * *

[(F) **Odd Lot Allocation**: If there are contracts remaining after Market Maker Priority is applied, such contracts shall be allocated by randomly assigning all Market Makers (including the Lead Market Maker or Directed Market Maker) an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the Market Maker, is at the best price at which the order, quote or sweep is being traded.]

([G]F) **All Other Remaining Interest**: If there are contracts remaining after all Market Maker interest has been fully executed, notwithstanding Options 3, Section 7(g)(3) and (k)(2), such contracts shall be executed based on the Size Pro-Rata execution algorithm as described in Options 3, Section 10(a). [In the event that there are remaining contracts to be allocated for interest after rounding, which includes orders of all remaining market participants, such remaining contracts will be allocated in time priority provided the interest is at the best price at which the order is being traded.]Legging Orders will be allocated after all other non-displayed interest, pursuant to Options 3, Section 7(k)(3).

(2) A [m]Market M[m]aker is entitled only to an Enhanced Lead Market Maker Allocation pursuant to paragraph (a)(1)(B) or the Entitlement for Orders of 5 contracts or fewer pursuant to paragraph (a)(1)(D) on a quote, or the Directed Market Maker Priority pursuant to paragraph (a)(1)(C) on a quote [or market maker order].

* * * * *

Section 15. Simple Order Risk Protections

The following order protections apply to Simple Orders.

(a) The following are order protections on Phlx:

(1) **Order Price Protection ("OPP")**. OPP is a feature of the System that prevents Limit Orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to Stop-Limit Orders until elected[, Intermarket Sweep Orders or Complex Orders].

(A) OPP is operational each trading day after the Opening Process until the close of trading, except during trading halts. OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than [50% through such contra-side Reference BBO]the greater of the below will cause the order to be rejected by the System upon receipt.

(A) 50% less (greater) than such contra-side Reference Best Bid (Offer); or

(B) a configurable dollar amount not to exceed $1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than [100% through such contra-side Reference BBO] the greater of the below will cause the order to be rejected by the System upon receipt.

(A) 100% less (greater) than such contra-side Reference Best Bid (Offer); or

(B) a configurable dollar amount not to exceed $1.00 less (greater) than such contra-side Reference Best Bid (Offer) as specified by the Exchange announced via an Options Trader Alert.

(C) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.

* * * * *

(3) **Market Wide Risk Protection**. All member organizations 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 member organizations that do not submit the required parameters, and will announce these default values in an Options Trader Alert to be distributed to member organizations. The System will maintain one or more counting programs for each member organization that count orders entered and contracts traded on Phlx. Member organizations can use multiple counting programs to separate risk protections for different groups established within the member organizations. The counting programs will maintain separate counts, over rolling time periods specified by the member organization for each count, of: (1) the total number of orders entered in the regular 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.

(A) If, during the applicable time period, the member organization exceeds thresholds that it has set for any of the order entry or execution counts described above on Phlx, the System will automatically reject all subsequent incoming orders entered by the member organization on Phlx.

(B) Member organizations may also choose to have the System automatically cancel all of their existing orders on Phlx when the Market Wide Risk Protection is triggered.

(C) The Market Wide Risk Protection will remain engaged until the member organization manually notifies the Exchange to enable the acceptance of new orders. For member organizations that still have open orders on the book that have not been cancelled pursuant to subparagraph (B) above, the System will continue to allow those member organizations to interact with existing orders entered before the protection was triggered, including sending cancel order messages and receiving trade executions for those orders.

(b) The following are order and quote protections on Phlx:

(1) **Acceptable Trade Range.**

(A) After the Opening Process, the System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote (except an All-or-None Order) will be allowed to execute. The Acceptable Trade Range is calculated by taking the Reference Price, plus or minus a value to be determined by the Exchange. (i.e., the Reference Price - (x) for sell orders/quotes and the Reference Price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the Reference Price is the better of the National Best Bid (“NBB”) or internal best bid for sell orders/quotes and the National Best Offer (“NBO”) or internal best offer for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote. The Acceptable Trade Range will not be available for All-or-None Orders.

(B) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected[, unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Options 3, Section 6(a)(ii)(B)(3) will ensue, triggering a new Reference Price]. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the Reference Price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted after the Posting Period, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their quotes or orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the quote/order will be returned). This process will repeat until either (i) the order/quote is executed, cancelled, or posted at its limit price or (ii) the order/quote has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

* * * * *

(c) The following protections apply to Lead Market Makers and Market Makers on Phlx:

(1) **Anti-Internalization** - Quotes and orders entered by Lead Market Makers and Market Makers (as defined in Options 2, Section 4) [using the same market participant identifier] will not be executed against quotes and orders entered on the opposite side of the market by the same Lead Market Maker or Market Maker using the same Lead Market Maker or Market Maker identifiers, or alternatively, if selected by the member organization, the same Exchange account number of member organization identifier. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This

functionality shall not apply in any auction, with respect to complex order transactions or during an Opening Process.

(2) **Automated Quotation Adjustments.**

(A) **Rapid Fire**. Market Makers are required to utilize the Percentage or Volume Threshold, each a Threshold, described in (i) and (ii) below. In addition, Market Makers may utilize the Delta and Vega Thresholds, each a Threshold, described in (iii) and (iv) below. For each of these features, the System will automatically remove a Market Maker's quotes in all series in an options class when any of the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, as described below, has been exceeded. A Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the System will automatically remove a Market Maker's quotes in all series of an options class. The Specified Time Period will commence for an options class every time an execution occurs in any series in such option class and will continue until the System removes quotes as described in paragraphs (D) and (E) below or the Specified Time Period expires. The Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. The Specified Time Periods will be the same value for each protection described in (i) - (iv) below.

(i) **Percentage Threshold**. A Market Maker must provide a specified percentage ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each series in an options class, the System will determine (1) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Marker Maker's quote size available at the time of execution plus the total number of the Market Marker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (2) the sum of the Series Percentage in the options class ("Issue Percentage") during a Specified Time Period. The System tracks and calculates the net impact of positions in the same options class; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class during the Specified Time Period.

(ii) **Volume Threshold**. A Market Maker must provide a Volume Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class when the Market Maker executes a number of contracts which exceeds the designated number of contracts in all series in an options class.

(iii) **Delta Threshold**. A Market Maker may provide a Delta Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (1) purchased call contracts plus sold put contracts and (2) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the member organization, the System will automatically remove a Market Maker's quotes in all series of the options class.

(iv) **Vega Threshold**. A Market Maker may provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the member organization, the System will automatically remove a Market Maker's quotes in all series of the options class.

(B) **Active Quote Protection.** In lieu of Rapid Fire, a Market Maker may provide an executed contract limit ("Contract Limit") that, if exceeded, the System will automatically remove the Market Maker's quotes in all series of an options class submitted through SQF. The System will apply the Contract Limit for the duration of the trading day. For each class of options, the System will maintain an active limit counter that will track the current number of contracts executed through the Market Maker's quotes ("Limit Counter"). If the Limit Counter exceeds the Contract Limit established by the Market Maker, the System will automatically remove the Market Maker's quotes as described in Section 15(c)(2)(D). Market Makers may submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero, including to re-enter the System as described in Section 15(c)(2)(E). For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge.

[(A) A Lead Market Maker, Streaming Quote Trader or Remote Streaming Quote Trader (collectively "Market Maker") may provide a specified time period and a specified percentage (as these terms are defined below) by which the Exchange's System ("System") will automatically remove a Market Maker's quotes and SQF interest in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds ("Percentage-Based Specified Time Period"). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the disseminated size, the original size quoted by the Market Maker, of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a Market Maker, not less than 1% ("Specified Percentage"), the System will automatically remove a Market Maker's quotes and SQF interest in all series of the underlying security submitted through designated Phlx protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period ("Percentage- Based Threshold"). A Percentage-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes and SQF interest as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage - Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

(B) A Lead Market Maker, Streaming Quote Trader or Remote Streaming Quote Trader (collectively "Market Maker") may provide a specified time period and a volume threshold by which the Exchange's System will automatically remove a Market Maker's quotes and SQF interest in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds ("Volume-Based Specified Time Period") when the Market Maker executes a number of contracts which equals or exceeds the designated number of contracts in all options series in an underlying security ("Volume-Based Threshold"). The Market Maker's Volume-Based Specified Time Period must be the same length of time as designated for purposes of the Percentage-Based Threshold. A Volume- Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes and SQF interest as described in (iv) or (v) or the Volume-Based Specified Time Period expires. A Volume-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Volume-Based Specified Time Periods occurring simultaneously and such Volume-Based Specified Time periods may overlap.]

(C) **Multi-Trigger.** A Market Maker or Market Maker Group (multiple affiliated Market Makers is a "Group" as defined by a Phlx member and provided by such member to the Exchange) may provide a Specified Time Period and number of allowable triggers by which the Exchange will automatically remove quotes [and SQF interest]in all options series in all underlying issues submitted through designated Phlx protocols, as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period established by the Phlx Market Maker not to exceed [15]30 seconds ("Multi- Trigger Specified Time Period"), the number of times the System automatically removes the Phlx Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage[-Based] Threshold[,] described in paragraph ([f]A)(i) above, [as well as] the Volume[-Based] Threshold described in paragraph ([f]A)(ii) above, the Delta Threshold described in paragraph (A)(iii) above, [and]the Vega Threshold described in paragraph (A)(iv) above, and the Contract Limit described in paragraph (B) above. Once the System determines that the number of triggers [equals or] exceeds a number established by either the Phlx Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that Phlx Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes in all options series in an underlying issue. A Multi-Trigger Specified Time Period will commence after every trigger of [either] the Percentage[-Based] Threshold,[or the] Volume[-Based] Threshold, Delta Threshold, Vega Threshold, or Contract Limit and will continue until the System removes quotes as described in paragraph (D) below [(f)(iv)] or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the Phlx Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

(D) The System will automatically remove quotes in all options in an underlying security when the Percentage[-Based] Threshold,[or] Volume[-Based] Threshold, Delta Threshold, Vega Threshold or Contract Limit has been [reached]exceeded. The System will automatically remove quotes in all options in all underlying securities when the Multi-Trigger Threshold has been [reached]exceeded. The System will send a Purge Notification Message to the Phlx Market Maker for all affected options when the above thresholds have been [reached]exceeded.

(i) The Percentage[-Based] Threshold,[or] Volume[-Based] Threshold, Delta Threshold, Vega Threshold, Contract Limit and Multi-Trigger Threshold[,] are considered independently of each other.

(ii) [Quotes will be automatically executed up to the Phlx Market Maker's size regardless of whether the execution exceeds the Percentage-Based Threshold or Volume-Based Threshold]The System will execute any marketable orders or quotes that are executable against a Market Maker's quote and received prior to the time the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or Contract Limit is triggered up to the size of the Market Maker's quote, even if such execution results in executions in excess of the Market Maker's applicable Threshold or Contract Limit with respect to any parameter.

(E) Notwithstanding subparagraph (c)(2)(A) and (D) above, [I]if a Phlx Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the [Percentage-Based Threshold or Volume-Based] Specified Time Period(s) for the Percentage, Volume, Delta, or Vega Threshold. The Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold..

(F) When the System removes quotes as a result of exceeding the Percentage[-Based] Threshold, [or] Volume[-Based] Threshold, Delta Threshold, or Vega Threshold, the Phlx Market Maker must send a re-entry indicator to re-enter the System. When the System removes quotes as a result of exceeding the Contract Limit, the Market Maker must submit a request to fully decrement their Limit Counter to zero in order to re-enter the System. When the System removes quotes as a result of the Multi-Trigger Threshold, the System will not accept quotes through designated protocols until the Phlx Market Maker or Group manually requests re-entry. After quotes are removed as a result of the Multi-Trigger Threshold, Exchange staff must set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the Phlx Market Maker or Group for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.

(G) The Exchange will require Phlx Market Makers to utilize either the Percentage[-Based] Threshold,[or]the Volume[-Based] Threshold, or the Contract Limit. For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega Threshold will not be available for use on the Market Maker's badge. The Delta, Vega, and Multi-Trigger Thresholds [is]are optional.

(3) **Post-Only Quoting Protection**. Phlx Market Makers may elect to configure their SQF protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). A Post-Only Quote Configuration would re-price or cancel a Phlx Market Maker's quote that would otherwise lock or cross any resting order or quote on the Phlx order book upon entry. When configured for re-price, quotes would be re-priced to one minimum price variation below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, as is the case today, if a quote with a Post-Only Quote Configuration would not lock or cross an order on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6). When configured for cancel, members and member organizations will have their quotes returned whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price. This functionality shall not apply during an Opening Process.

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Section 23. Data Feeds and Trade Information

(a) The following data feeds are offered by Phlx:

(1) [**Top of PHLX Options]Nasdaq Phlx Top of Market ("TOPO")** is a direct data feed product that includes the Exchange's best bid and offer price, with aggregate size, based on displayable order and quoting interest on Phlx and last sale information for trades executed on Phlx. The data contained in the TOPO data feed is identical to the data simultaneously sent to the processor for the OPRA and subscribers of the data feed. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only.

(2) [**PHLX]Nasdaq Phlx Order[s] Feed** is a real-time full Limit Order book data feed that provides pricing information for orders on the [PHLX]Phlx Order book for displayed order types as well as market participant capacity. [PHLX]Nasdaq Phlx Order[s]Feed is currently provided as part of the TOPO Plus Orders data product. [PHLX]The Nasdaq Phlx Order[s] Feed provides real-time information to enable users to keep track of the single and complex order book(s). The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, leg information on complex

strategies and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only. The feed also provides auction and exposure notifications and order imbalances on opening/reopening (size of matched contracts and size of the imbalance).

(3) [**PHLX**]**Nasdaq Phlx Depth of Market** is a data product that provides: (i) order and quotation information for individual quotes and orders on the order book; (ii) last sale information for trades executed on Phlx; (iii) auction; and (iv) an Imbalance Message which includes the symbol, side of the market, size of matched contracts, size of the imbalance, and price of the affected series. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on Phlx and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening (size of matched contracts and size of the imbalance) and exposure notifications, with market participant capacity.

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

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(2) Reserved.[**TradeInfo PHLX Interface**, a user interface, permits a member to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) cancellation of open orders at the order, port or firm mnemonic level; (iii) a view of orders and executions; and (iv) download of orders and executions for recordkeeping purposes.]

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Section 28. [Reserved]Optional Risk Protections

(a) The following are optional order risk protections:

(1) Notional dollar value per order (quantity x limit price x number of underlying shares);
(2) Daily aggregate notional dollar value;
(3) Quantity per order; and
(4) Daily aggregate quantity

(b) member organization or member organizations may elect one or more of the above optional risk protections by contacting Market Operations and providing a value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) or (a)(4)) for each order protection. A member or member organizations may modify their settings through Market Operations.

(c) The System will reject all incoming aggregated member or member organization orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the member or member organization is exceeded.

(d) The System will reject all incoming member or member organization orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the member or member organization is exceeded by the incoming order.

(e) If a member or member organization sets a notional dollar value, a Market Order would not be accepted from that member or member organization.
(f) The risk protections are only available for orders entered through FIX. Additionally, all settings are firm-level.

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Options 5 Order Protection; Locked and Crossed Markets Definitions

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Section 4. Order Routing

(a) Phlx offers two routing strategies, FIND and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this rule the System will route FIND and SRCH Orders with no other contingencies. Immediate or Cancel ("IOC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the FIND or SRCH orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. For purposes of this rule, the Phlx's best bid or offer or "PBBO" does not include Stop Orders and Stop-Limit Orders which have not been triggered. The "internal PBBO" shall refer to the actual better price of an order resting on Phlx's Order Book, which is not displayed, but available for execution, excluding Stop Orders and Stop-Limit Orders which have not been triggered. When checking the order book, the System will seek to execute at the price at which it would send the order to an away market. For purposes of this rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this rule, "exposure" or "exposing" an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. An order exposure alert is sent if the order size is modified. Exposure notifications will be sent to participants in accordance with the routing procedures described in Options 5, Section 4(a)(iii) below except if an incoming order is joining an already established PBBO price when the ABBO is locked or crossed with the PBBO, in which case such order will join the established PBBO price and no exposure notification will be sent. For purposes of this rule Phlx's opening process is governed by Options 3, Section 8 and includes an opening after a trading halt ("Opening Process"). Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The order routing process shall be available to members from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Member organizations can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules.

(i) **Priority of Routed Orders**. Orders sent to other markets do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.

(ii) Entering member organizations whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on the Exchange.

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(iii) The following order types are available:

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(B) ***FIND Order.*** A FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. FIND Orders submitted after an Opening Process initiate their own Route Timers and are routed in the order in which their Route Timers end. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day and post to the order book, even in the event that there is a new Opening Process after a trading halt.

(1)[With respect to an Opening Process, only a Public Customer and Professional FIND Order on the Order Book, whether it is received prior to the opening or it is a GTC FIND Order from a prior day, may be routed at the conclusion of an Opening Process. Non-Public Customer and non-Professional FIND Orders are not eligible for routing at the conclusion of an Opening Process.] At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will [be]execute[d] or book pursuant to Options 3, Section 8(k). [Such FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process.]

(2) [With respect to an Opening Process, if during a route timer at the conclusion of an Opening Process pursuant to Options 3, Section 8(k) markets move such that] Generally, a FIND Order will be included in the displayed BBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into

the order book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the FIND Order is entered into the order book[executable against Exchange interest,] the FIND Order will [immediately execute]be entered into the order book at the ABBO price and displayed one MPV inferior to the ABBO. If during a route timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the PBBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the route timer. If the ABBO worsens but remains better than the PBBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the route timer. If, during the route timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

(3) A FIND Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book at its limit price. The FIND Order will be treated as DNR for the remainder of the trading day, even in the event that there is a new Opening Price after a trading halt.

(4) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is inferior to the internal PBBO will be traded at the Exchange at or better than the PBBO price. If the FIND Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, (2) be entered into the Order Book at its limit price, or (3) if locking or crossing the ABBO, be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The FIND Order will be treated as DNR for the remainder of the trading day, even in the event that there is a new Opening Price after a trading halt.

(5) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is equal to the internal PBBO will be traded at the Exchange at the internal PBBO. If the FIND Order has size remaining after exhausting the PBBO, it will initiate a Route Timer, and expose the FIND Order at the ABBO to allow market participants an opportunity to interact with the remainder of the FIND Order. During the Route Timer, the FIND Order will be included in the PBBO at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price. [If during the Route Timer any new interest arrives opposite the FIND Order that is marketable against the FIND Order such interest will trade against the FIND Order at the ABBO price unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.] If during the Route Timer, the ABBO markets move such that the FIND Order is no longer marketable against the

ABBO, it may: (i) trade at the next PBBO price (or prices) if the FIND Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. [A FIND Order will be included in the displayed PBBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO].

(6) If, at the end of the Route Timer pursuant to subparagraph (5) above, the FIND Order is still marketable with the ABBO, the FIND Order will route to an away market up to a size equal to the lesser of either (1) an away market's size or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after routing, it will (i) trade at the next PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process<u>, which may include a re-opening after a trading halt</u>. [The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt.]

(7) A FIND Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the internal PBBO will initiate a Route Timer, and expose the FIND Order at the ABBO to allow participants and other market participants an opportunity to interact with the FIND Order. [During the Route Timer, the FIND Order will be included in the PBBO at a price that is the better of one MPV away from the ABBO or the PBBO. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price.]

(8) If, at the end of the Route Timer pursuant to subparagraph (7) above, the ABBO is still the best price and is marketable with the FIND Order, the order will route to the away market(s) whose disseminated price(s) is better than the PBBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after such routing, it will (i) trade at the PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process<u>, which may include a re-opening after a trading halt</u>. [The remaining size of a non-Public Customer and non-Professional FIND Order will be cancelled upon an intra-day trading halt.]

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(C) ***SRCH Order.*** A SRCH Order is [a Public Customer and Professional order that is] routable at any time. A SRCH Order on the Order Book during an Opening Process (including a re-opening following a trading halt), whether it is received prior to an Opening Process or it is a GTC or GTD SRCH Order from a prior day, may be routed as part of an Opening Process. Orders initiate their own Route Timers and are routed in the order in which their Route Timers end.

(1) At the end of an Opening Process, any SRCH Order that is priced through the Opening Price will be cancelled, and any SRCH Order that is at or inferior to the Opening Price, pursuant to Options 3, Section 8(a)(iii), will [be] execute[d] or book pursuant to Options 3, Section 8(k).

(2) Generally, a SRCH Order will be included in the displayed BBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the order book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order is entered onto the order book, the SRCH Order will be entered into the order book at the ABBO price and displayed one MPV inferior to the ABBO. Once on the order book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. If during a Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the PBBO, the SRCH Order will book at its limit price. If, [the SRCH Order] during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. [If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting] The System will route and execute contracts contemporaneously at the end of the Route Timer.

([2]3) A SRCH Order received after an Opening Process that is not marketable against the PBBO or the ABBO will be entered into the Order Book at its limit price. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.

([3]4) A SRCH Order received after an Opening Process that is marketable against the PBBO when the ABBO is inferior to the PBBO will be traded [at]on the Exchange at or better than the PBBO price. If the SRCH Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the [price equal to the] ABBO price, and/or (2) be routed, subject to a Route Timer, to away markets if all Phlx interest at better or equal prices has been exhausted, and/or (3) be entered into the Order Book at its limit price if not locking or crossing the PBBO or the ABBO. [Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.]

([4]<u>5</u>) A SRCH Order received after an Opening Process that is marketable against the PBBO when the ABBO is equal to the internal PBBO will be traded [at]<u>on</u> the Exchange at the internal PBBO price. If the SRCH Order has size remaining after exhausting the PBBO, it will initiate a Route Timer and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the <u>remainder of the </u>SRCH Order. During the timer, the SRCH Order will be included in the PBBO at a price one MPV away from the ABBO. [If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price. If during the Route Timer any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order such interest will trade against the SRCH order at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.]

([5]<u>6</u>) If, at the end of the Route Timer pursuant to subparagraph (4) above, the SRCH Order is still marketable with the ABBO, the SRCH Order will route <u>to an away market</u> up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order is [locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the PBBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If the SRCH Order] still has remaining size after [such] routing, it may: ([1]<u>i</u>) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or ([2]<u>ii</u>) be entered into the <u>order</u> book at its limit price if not locking or crossing the PBBO or the ABBO. [The System will route and execute contracts contemporaneously at the end of the Route Timer. Once on the book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.]

([6]<u>7</u>) A SRCH Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the PBBO will initiate a Route Timer, and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. [During the Route Timer, the SRCH Order will be included in the PBBO at a price that is the better of one MPV inferior to the ABBO or at the PBBO. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price.] If during the

Route Timer, the ABBO markets move such that the SRCH Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. [A SRCH Order will be included in the displayed PBBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order such interest will trade against the SRCH order at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.]

([7]8) If, at the end of the Route Timer pursuant to subparagraph ([6]7) above, the ABBO is still the best price and is marketable with the SRCH Order, the order will route to the away market(s) whose disseminated price(s) is better than the PBBO, up to a size equal to the lesser of either: ([1]i) the away markets' size, or ([2]ii) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the Order Book at its limit price if not locking or crossing the PBBO including. [Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.]

[(8) A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If, during such Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at its SRCH Order price.

(9) If, at the end of the Route Timer pursuant to subparagraph (8) above, the ABBO is still the best price, the SRCH Order will route to the away market(s) up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (i) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO or the ABBO.]

([10]9) A SRCH Order that is routed to an away market(s) will be marked as an ISO and designated as an IOC order.

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Options 6 Options Trade Administration

Section 1. Authorization to Give Up

(a) *General*. For each transaction in which a member organization participates, the member organization may indicate, at the time of the trade[, with respect to floor trading only], or through post trade allocation, any Options Clearing Corporation ("OCC") number of a Clearing Member through which a transaction will be cleared ("Give Up"), provided the Clearing Member has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s) ("Restricted OCC Number"). A member organization may Give Up a Restricted OCC Number provided the member organization has written authorization as described in paragraph (b)(ii) below ("Authorized Member Organization").

* * * * *

(c) *System*. The System will not allow an unauthorized member organization to Give Up a Restricted OCC Number. <u>If an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Member's default OCC clearing number.</u>

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[(ii) For all other orders, the System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry.]

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Options 7 Pricing Schedule

Section 9. Other member organization Fees

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B. Port Fees

A port is a logical connection or session that enables a market participant to send inbound messages and/or receive outbound messages from the Exchange using various communication protocols. Port Fees are assessed in full month increments and are not prorated.

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[**(2) TradeInfo Interface** $95 per user per month]

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Options 8 Floor Trading

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Section 32. Types of Floor-Based (Non-System) Orders

The Exchange may determine to make certain order types and time-in-force, respectively, available on a class or System basis.

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([b]5) *Contingency Order*. A contingency order is a Limit or Market Order to buy or sell that is contingent upon a condition being satisfied while the order is at the post.

([1]i) *Stop-Limit Order*. A Stop-Limit Order is a contingency order to buy or sell at a limited price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A Stop-Limit Order to buy becomes a Limit Order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A Stop-Limit Order to sell becomes a Limit Order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

([2]ii) *Stop (stop-loss) Order*. A Stop Order is a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified price. A Stop Order to buy becomes a Market Order when the option contract trades or is bid on the Exchange at or above the stop price. A Stop Order to sell becomes a Market Order when the option contract trades or is offered on the Exchange at or below the stop price.

Notwithstanding the foregoing, a Stop or Stop-Limit Order shall not be elected by a trade that is reported late or out of sequence.

([3]iii) *All or None Order*. An All-or-None Order is a Market or Limit Order which is to be executed in its entirety or not at all. [An All-or-None Order may only be submitted by a Public Customer.] Further, pursuant to Options 8, Section 39, A-3, an All-or-None Order has no standing respecting executions in the trading crowd except with respect to other All-or-None Orders. When represented in the trading crowd, All-or-None Orders are not included as part of the bid or offer.

([4]iv) *Cancel-Replacement Order*. A Cancel-Replacement Order is a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety the replacement order is automatically canceled or reduced by such number.

([5]v) *Immediate or Cancel Order*. An immediate-or-cancel ("IOC") order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.

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

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(4) *Opening Only ("OPG") Order.* An Opening Only ("OPG") order is entered with a TIF of "OPG." This order can only be executed in the Opening Process pursuant to Options 3, Section 8.

* * * * *

([d]c) *Not Held Order*. A not held order is an order marked "not held", "take time" or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed.

(d) Reserved.

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