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Page 1 of \* 32

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

File No. \* SR 2026 - \* 04

Amendment No. (req. for Amendments \*)

Filing by Nasdaq PHLX LLC

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

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input checked="" type="checkbox"/> 19b-4(f)(6)		
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Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

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

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

**Description**

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

A proposal to amend BOX Spread Position Limits and other rule amendments.

**Contact Information**

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

First Name \* [Redacted]

Title \* [Redacted]

E-mail \* [Redacted]

Telephone \* [Redacted]

**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 01/27/2026

(Title \*)

By John Zecca (Name \*)

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: 2026.01.27 16:05:19 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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SR-Phlx-2026-04 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-2026-04 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-2026-04 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”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule to amend Options 2, Section 11 (Lead Market Maker Appointments); Options 3, Section 8 (Options Opening Process); Options 3, Section 10 (Electronic Execution Priority and Processing in the System); Options 3, Section 14 (Complex Orders); Options 3, Section 15 (Simple Order Risk Protections); Options 3, Section 22 (Limitations on Order Entry); Options 8, Section 25 (Floor Allocation); Options 8, Section 34 (FLEX Trading); Options 8, Section 39 (Option Minor Rule Violations and Order and Decorum Regulations); and Options 9, Section 13 (Position Limits).

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

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

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

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

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

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



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

a. Purpose

The Exchange proposes to amend Options 2, Section 11 (Lead Market Maker Appointments); Options 3, Section 8 (Options Opening Process); Options 3, Section 10 (Electronic Execution Priority and Processing in the System); Options 3, Section 14 (Complex Orders); Options 3, Section 15 (Simple Order Risk Protections); Options 3, Section 22 (Limitations on Order Entry); Options 8, Section 25 (Floor Allocation); Options 8, Section 34 (FLEX Trading); Options 8, Section 39 (Option Minor Rule Violations and Order and Decorum Regulations); Options 9, Section 13 (Position Limits). Each rule change will be described below.

**Options 2, Section 11**

The Exchange proposes to re-letter Options 2, Section 11(i) as (g) and to correct a cross-citation to paragraph (d) of Options 2, Section 11 to paragraph (e). The proposed amendments are non-substantive.

**Options 3, Section 8**

The Exchange proposes to add the words “unmatched contracts” in Options 3, Section 8, Opening Process. The addition of this rule text at Options 3, Section 8(k)(A) will add context to the words “side of the imbalance.” The same language appears in Nasdaq ISE, LLC (“ISE”) Options 3, Section 8(j)(1). This amendment is non-substantive.

**Options 3, Section 10**

The Exchange proposes to relocate the rule text in Options 3, Section 10(b) which states,

**Applicability.** This rule does not apply to the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), PIXL described within Options 3, Section 13, and orders described within Options 3, Section 12, unless Options 3, Section 10 is specifically referenced within Phlx Rules applicable to the aforementioned functionality.

The Exchange proposes to relocate this rule text, without change, immediately before Options 3, Section 10(c) so that the priority overlays appear after subparagraph (a) to Options 3, Section 10.

This amendment is non-substantive.

**Options 3, Section 14**

The Exchange proposes to relocate the description of a Cancel-Replacement Complex Order from Options 3, Section 14(a)(15) to Options 3, Section 14(a)(20), without change, within the Complex Order rule. Relocating this rule text will harmonize the rule text with ISE Options 3, Section 14(a)(20). This amendment is non-substantive.

**Options 3, Section 15**

The Exchange proposes to remove the words “as is the case today,” from Options 3, Section 15(c)(3) which describes the Post-Only Quoting Protection. This rule text is unnecessary in this rule. This amendment is non-substantive.

**Options 3, Section 22**

The Exchange proposes to amend Options 3, Section 22, Limitations on Order Entry, to amend “Members” to “Member” in Options 3, Section 22(a). This technical amendment is non-substantive.

**Options 8, Section 34**

The Exchange inadvertently numbered Options 3, Section 34(i) with duplicate (2)s. At this time, the Exchange proposes to renumber Options 3, Section 34(i) as (1)- (5). This technical amendment is non-substantive.

**Options 9, Section 13**

Phlx proposes to amend Options 9, Section 13, Position Limits, at subparagraph (l) which currently states,

Equity Option Hedge Exemptions. The following qualified hedge transactions and positions described in paragraphs 1-5 below shall be exempt from established position limits as prescribed under sections (g) and (d)(i) above. Hedge transactions and positions established pursuant to paragraphs (6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under sections (g) and (d)(i).

First, the Exchange proposes to remove references to subparagraph (d)(i) which do not exist in the rule and instead cite to subparagraph (a) which contains position limits for certain securities.

Second, the Exchange proposes to correct an error with respect to hedge transactions to permit box spreads to be exempt from established position limits as prescribed under Options 9, Section 13(a)<sup>3</sup> and (g).

Currently, the rule text states that hedge transactions and positions established pursuant to Options 9, Section 13(l)(6) and (7) below are subject to a position limit equal to five (5) times

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<sup>3</sup> The reference to Options 9, Section 13(d)(i) is being amended to subparagraph (a) with this proposal.

the standard limit established under Options 9, Section 13(g) and (d)(i).<sup>4</sup> Paragraph (l)(6) references a box spread<sup>5</sup> and paragraph (l)(7) references OTC options positions.<sup>6</sup>

Phlx filed a rule proposal making clear that the five times standard was limited to OTC options contracts,<sup>7</sup> however Phlx inadvertently cited to Options 9, Section 14(l)(6) when it relocated rules in a subsequent rule change that copied SR-Cboe-2003-30.<sup>8</sup> The five times standard should apply only to OTC options contracts as evidenced by NYSE Arca, Inc. (“NYSE Arca”) Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American LLC (“NYSE American”) Rule 904, and FINRA Rule 2360(b)(3)(A)(ii).

At this time, the Exchange proposes to remove the citation to Options 9, Section 14(l)(6) with respect to a position limit equal to five (5) times the standard limit. The Exchange proposes to add paragraph (l)(6) to the list of exempt transactions in the first sentence of Options 9, Section 14(l) to properly reflect that box spreads are exempt from the position limits prescribed under Options 9, Section 13(a) and (d). At this time, the Exchange has been applying a stricter standard. With this change, members and member organizations would not have a position limit for a box spread and, therefore, would not have to unwind any position as a result of this amendment.

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<sup>4</sup> See id.

<sup>5</sup> Options 9, Section 13(l)(6) states that a long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price (“box spread”).

<sup>6</sup> Options 9, Section 13(l)(7) states that a listed option position hedged on a one-for-one basis with an over-the-counter (“OTC”) option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

<sup>7</sup> See Securities Exchange Act Release No. 45889 (May 9, 2002), 67 FR 34980 (May 16, 2002) (SR-Phlx-2002-33) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Eliminate Position and Exercise Limits for Certain Qualified Hedge Strategies).

<sup>8</sup> See Securities Exchange Act Release No. 51322 (March 4, 2005), 70 FR 12260 (March 11, 2005) (SR-Phlx-2005-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Position Limits and Exercise Limits).

### **Market Maker and Lead Market Maker Defined**

The Exchange proposes to amend various references to the term “Specialist.” Phlx removed the word “Specialist” in a prior rule change<sup>9</sup> and replaced the word with “Lead Market Maker.” The Exchange inadvertently missed some changes in Options 3, Section 25; Options 8, Section 34; and Options 8, Section 39. Further, the Exchange proposes to replace the word “ROT” with “Market Maker” in Options 8, Section 25. The term “ROT” was removed in SR-Phlx-2020-03 as well. These amendments are non-substantive. The Exchange also proposes to change “a” to “an” within Options 8, Section 25(a). This amendment is non-substantive. The Exchange also proposes to renumber Options 8, Section 25(c)(3)(B)(3) as Options 8, Section 25(c)(3)(B)(iv).

Finally, the Exchange proposes to reserve Options 3, Section 26. This section is being reserved as another rule is proposed in this section for ISE.

#### **b. Statutory Basis**

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>11</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange’s proposal to re-letter Options 2, Section 11(i) as (g) and to correct a cross-citation to paragraph (d) of Options 2, Section 11 to paragraph (e) are non-substantive.

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<sup>9</sup> See Securities Exchange Act 88213 (February 14, 2020), 85 FR 9859 (February 20, 2020) (SR-Phlx-2020-03)(Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate Rules From Its Current Rulebook Into Its New Rulebook Shell) (“Rulebook Relocation”).

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

The Exchange's proposal to (1) add the words "unmatched contracts" in Options 3, Section 8, Opening Process; (2) relocate the rule text in Options 3, Section 10(b); (3) relocate the description of a Cancel-Replacement Complex Order from Options 3, Section 14(a)(15) to Options 3, Section 14(a)(20); (4) remove the words "as is the case today," from Options 3, Section 15(c)(3); (5) amend "Members" to "Member" in Options 3, Section 22(a); (6) renumber Options 8, Section 34(i) as (1)- (5); (7) replace the term "Specialist" with "Lead Market Maker" and the word "ROT" with "Market Maker"; and (8) reserve Options 3, Section 26, are consistent with the Act as these amendments are non-substantive technical amendments to the rules.

Phlx's proposal to amend Options 9, Section 14(1) to correct an error with respect to hedge transactions to permit box spreads to be exempt from established position limits as prescribed under Options 9, Section 13(a) and (d) is consistent with the Act. Current Options 9, Section 14(1)(6) references a box spread<sup>12</sup> and current Options 9, Section 14(1)(8) references OTC options positions.<sup>13</sup> Phlx filed a rule proposal making clear that the five times standard was limited to OTC options contracts,<sup>14</sup> however Phlx inadvertently cited to Options 9, Section 14(1)(6) when it relocated rules in a subsequent rule change that copied SR-Cboe-2003-30.<sup>15</sup> Removing the citation to Options 9, Section 14(1)(6) with respect to a position limit equal to five

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<sup>12</sup> Options 9, Section 14(1)(6) states that a long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price ("box spread").

<sup>13</sup> Options 9, Section 14(1)(8) states that a listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

<sup>14</sup> See Securities Exchange Act Release No. 45889 (May 9, 2002), 67 FR 34980 (May 16, 2002) (SR-Phlx-2002-33) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Eliminate Position and Exercise Limits for Certain Qualified Hedge Strategies).

<sup>15</sup> See Securities Exchange Act Release No. 51322 (March 4, 2005), 70 FR 12260 (March 11, 2005) (SR-Phlx-2005-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Position Limits and Exercise Limits).

(5) times the standard limit and adding paragraph (l)(6) to the list of exempt transactions in the first sentence of Options 9, Section 14(l) would properly reflect that box spreads are exempt from the position limits prescribed under Options 9, Section 13(a) and (d). At this time, the Exchange has been applying a stricter standard.<sup>16</sup>

Today, NYSE Arca Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American Rule 904 and FINRA Rule 2360(b)(3)(A)(ii) apply the five times standard only to OTC options contracts and exempt box spreads from their position limit rules. At this time, the Exchange has been applying a stricter standard. With this change, members and member organizations would not have a position limit for a box spread and, therefore, would not have to unwind any position as a result of this amendment.

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

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

The Exchange's proposal to amend Options 9, Section 13(l) to remove a reference to box spreads at paragraph (l)(6) so that they do not appear to have five times the position limit does not impose an undue burden on intra-market competition because all Phlx members and member organization that transact box spreads would be exempt from the position limits in Options 9, Section 13(a) and (d).

The Exchange's proposal to amend Options 9, Section 13(l) to remove a reference to box spreads at paragraph (l)(6) so that they do not appear to have five times the position limit does

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<sup>16</sup> A similar change is being proposed to Nasdaq ISE, LLC rules at Options 9, Section 14.

not impose an undue burden on inter-market competition as other options exchanges<sup>17</sup> have similar position limit rules that exempt box spreads from position limits.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>18</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>19</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The proposal to amend Options 9, Section 13, Position Limits, does not significantly affect the protection of investors or the public interest as a prior rule change<sup>20</sup> permitted certain OTC transactions to have five times the position limit but not box spreads. The Exchange believes that this error occurred in 2005 when Phlx copied SR-Cboe-2003-30 rule change that

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<sup>17</sup> See NYSE Arca Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American Rule 904 and FINRA Rule 2360(b)(3)(A)(ii).

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

<sup>19</sup> 17 CFR 240.19b-4(f)(6).

<sup>20</sup> See Securities Exchange Act Release No. 45889 (May 9, 2002), 67 FR 34980 (May 16, 2002) (SR-Phlx-2002-33) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Eliminate Position and Exercise Limits for Certain Qualified Hedge Strategies).

amended this rule.<sup>21</sup> Amending this rule will protect investors and the general public as the rule will reflect the correct approvals from the Commission.

The proposal to amend Options 9, Section 13, Position Limits, does not impose any significant burden on competition because all Phlx members and member organization would not be subject to five times the position limit for a box spread. The remainder of the amendments are non-substantive.

Furthermore, Rule 19b-4(f)(6)(iii)<sup>22</sup> requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay

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<sup>21</sup> See Securities Exchange Act Release No. 51322 (March 4, 2005), 70 FR 12260 (March 11, 2005) (SR-Phlx-2005-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Position Limits and Exercise Limits).

<sup>22</sup> 17 CFR 240.19b-4(f)(6)(iii).

contained in Rule 19b-4(f)(6)(iii) so that it may immediately amend Options 9, Section 13(l) to reflect the appropriate position limits for box spreads. This proposed change does not raise any novel issue and would align Phlx's rule with NYSE Arca Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American Rule 904 and FINRA Rule 2360(b)(3)(A)(ii). The remainder of the amendments do not raise novel issues, however, they harmonize the rules to the rules of other Nasdaq affiliated markets.

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

Not applicable.

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

Not applicable.

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

Not applicable.

11. Exhibits

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

5. Text of the proposed rule change.

**EXHIBIT 1****SECURITIES AND EXCHANGE COMMISSION****[Release No. 34- ; File No. SR-Phlx-2026-04]****Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend BOX Spread Position Limits and Other Rule Amendments**

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 27, 2026, 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 11 (Lead Market Maker Appointments); Options 3, Section 8 (Options Opening Process); Options 3, Section 10 (Electronic Execution Priority and Processing in the System); Options 3, Section 14 (Complex Orders); Options 3, Section 15 (Simple Order Risk Protections); Options 3, Section 22 (Limitations on Order Entry); Options 8, Section 25 (Floor Allocation); Options 8, Section 34 (FLEX Trading); Options 8, Section 39 (Option Minor Rule Violations and Order and Decorum Regulations); and Options 9, Section 13 (Position Limits).

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

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

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

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

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

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

1. Purpose

The Exchange proposes to amend Options 2, Section 11 (Lead Market Maker Appointments); Options 3, Section 8 (Options Opening Process); Options 3, Section 10 (Electronic Execution Priority and Processing in the System); Options 3, Section 14 (Complex Orders); Options 3, Section 15 (Simple Order Risk Protections); Options 3, Section 22 (Limitations on Order Entry); Options 8, Section 25 (Floor Allocation); Options 8, Section 34 (FLEX Trading); Options 8, Section 39 (Option Minor Rule Violations and Order and Decorum Regulations); Options 9, Section 13 (Position Limits). Each rule change will be described below.

**Options 2, Section 11**

The Exchange proposes to re-letter Options 2, Section 11(i) as (g) and to correct a cross-citation to paragraph (d) of Options 2, Section 11 to paragraph (e). The proposed amendments are non-substantive.

**Options 3, Section 8**

The Exchange proposes to add the words “unmatched contracts” in Options 3, Section 8, Opening Process. The addition of this rule text at Options 3, Section 8(k)(A) will add context to the words “side of the imbalance.” The same language appears in Nasdaq ISE, LLC (“ISE”) Options 3, Section 8(j)(1). This amendment is non-substantive.

**Options 3, Section 10**

The Exchange proposes to relocate the rule text in Options 3, Section 10(b) which states,

**Applicability.** This rule does not apply to the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), PIXL described within Options 3, Section 13, and orders described within Options 3, Section 12, unless Options 3, Section 10 is specifically referenced within Phlx Rules applicable to the aforementioned functionality.

The Exchange proposes to relocate this rule text, without change, immediately before Options 3, Section 10(c) so that the priority overlays appear after subparagraph (a) to Options 3, Section 10. This amendment is non-substantive.

**Options 3, Section 14**

The Exchange proposes to relocate the description of a Cancel-Replacement Complex Order from Options 3, Section 14(a)(15) to Options 3, Section 14(a)(20), without change, within the Complex Order rule. Relocating this rule text will harmonize the rule text with ISE Options 3, Section 14(a)(20). This amendment is non-substantive.

**Options 3, Section 15**

The Exchange proposes to remove the words “as is the case today,” from Options 3, Section 15(c)(3) which describes the Post-Only Quoting Protection. This rule text is unnecessary in this rule. This amendment is non-substantive.

**Options 3, Section 22**

The Exchange proposes to amend Options 3, Section 22, Limitations on Order Entry, to amend “Members” to “Member” in Options 3, Section 22(a). This technical amendment is non-substantive.

**Options 8, Section 34**

The Exchange inadvertently numbered Options 3, Section 34(i) with duplicate (2)s. At this time, the Exchange proposes to renumber Options 3, Section 34(i) as (1)- (5). This technical amendment is non-substantive.

**Options 9, Section 13**

Phlx proposes to amend Options 9, Section 13, Position Limits, at subparagraph (l) which currently states,

Equity Option Hedge Exemptions. The following qualified hedge transactions and positions described in paragraphs 1-5 below shall be exempt from established position limits as prescribed under sections (g) and (d)(i) above. Hedge transactions and positions established pursuant to paragraphs (6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under sections (g) and (d)(i).

First, the Exchange proposes to remove references to subparagraph (d)(i) which do not exist in the rule and instead cite to subparagraph (a) which contains position limits for certain securities.

Second, the Exchange proposes to correct an error with respect to hedge transactions to permit box spreads to be exempt from established position limits as prescribed under Options 9, Section 13(a)<sup>3</sup> and (g).

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<sup>3</sup> The reference to Options 9, Section 13(d)(i) is being amended to subparagraph (a) with this proposal.

Currently, the rule text states that hedge transactions and positions established pursuant to Options 9, Section 13(l)(6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under Options 9, Section 13(g) and (d)(i).<sup>4</sup> Paragraph (l)(6) references a box spread<sup>5</sup> and paragraph (l)(7) references OTC options positions.<sup>6</sup>

Phlx filed a rule proposal making clear that the five times standard was limited to OTC options contracts,<sup>7</sup> however Phlx inadvertently cited to Options 9, Section 14(l)(6) when it relocated rules in a subsequent rule change that copied SR-Cboe-2003-30.<sup>8</sup> The five times standard should apply only to OTC options contracts as evidenced by NYSE Arca, Inc. (“NYSE Arca”) Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American LLC (“NYSE American”) Rule 904, and FINRA Rule 2360(b)(3)(A)(ii).

At this time, the Exchange proposes to remove the citation to Options 9, Section 14(l)(6) with respect to a position limit equal to five (5) times the standard limit. The Exchange proposes to add paragraph (l)(6) to the list of exempt transactions in the first sentence of Options 9, Section 14(l) to properly reflect that box spreads are exempt from the position limits prescribed under Options 9, Section 13(a) and (d). At this time, the Exchange has been applying a stricter standard. With this change, members and member organizations would not have a position limit

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<sup>4</sup> See id.

<sup>5</sup> Options 9, Section 13(l)(6) states that a long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price (“box spread”).

<sup>6</sup> Options 9, Section 13(l)(7) states that a listed option position hedged on a one-for-one basis with an over-the-counter (“OTC”) option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

<sup>7</sup> See Securities Exchange Act Release No. 45889 (May 9, 2002), 67 FR 34980 (May 16, 2002) (SR-Phlx-2002-33) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Eliminate Position and Exercise Limits for Certain Qualified Hedge Strategies).

<sup>8</sup> See Securities Exchange Act Release No. 51322 (March 4, 2005), 70 FR 12260 (March 11, 2005) (SR-Phlx-2005-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Position Limits and Exercise Limits).

for a box spread and, therefore, would not have to unwind any position as a result of this amendment.

### **Market Maker and Lead Market Maker Defined**

The Exchange proposes to amend various references to the term “Specialist.” Phlx removed the word “Specialist” in a prior rule change<sup>9</sup> and replaced the word with “Lead Market Maker.” The Exchange inadvertently missed some changes in Options 3, Section 25; Options 8, Section 34; and Options 8, Section 39. Further, the Exchange proposes to replace the word “ROT” with “Market Maker” in Options 8, Section 25. The term “ROT” was removed in SR-Phlx-2020-03 as well. These amendments are non-substantive. The Exchange also proposes to change “a” to “an” within Options 8, Section 25(a). This amendment is non-substantive. The Exchange also proposes to renumber Options 8, Section 25(c)(3)(B)(3) as Options 8, Section 25(c)(3)(B)(iv).

Finally, the Exchange proposes to reserve Options 3, Section 26. This section is being reserved as another rule is proposed in this section for ISE.

## **2. Statutory Basis**

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>11</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

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<sup>9</sup> See Securities Exchange Act 88213 (February 14, 2020), 85 FR 9859 (February 20, 2020) (SR-Phlx-2020-03)(Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate Rules From Its Current Rulebook Into Its New Rulebook Shell) (“Rulebook Relocation”).

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

The Exchange's proposal to re-letter Options 2, Section 11(i) as (g) and to correct a cross-citation to paragraph (d) of Options 2, Section 11 to paragraph (e) are non-substantive.

The Exchange's proposal to (1) add the words "unmatched contracts" in Options 3, Section 8, Opening Process; (2) relocate the rule text in Options 3, Section 10(b); (3) relocate the description of a Cancel-Replacement Complex Order from Options 3, Section 14(a)(15) to Options 3, Section 14(a)(20); (4) remove the words "as is the case today," from Options 3, Section 15(c)(3); (5) amend "Members" to "Member" in Options 3, Section 22(a); (6) renumber Options 8, Section 34(i) as (1)- (5); (7) replace the term "Specialist" with "Lead Market Maker" and the word "ROT" with "Market Maker"; and (8) reserve Options 3, Section 26, are consistent with the Act as these amendments are non-substantive technical amendments to the rules.

Phlx's proposal to amend Options 9, Section 14(1) to correct an error with respect to hedge transactions to permit box spreads to be exempt from established position limits as prescribed under Options 9, Section 13(a) and (d) is consistent with the Act. Current Options 9, Section 14(1)(6) references a box spread<sup>12</sup> and current Options 9, Section 14(1)(8) references OTC options positions.<sup>13</sup> Phlx filed a rule proposal making clear that the five times standard was limited to OTC options contracts,<sup>14</sup> however Phlx inadvertently cited to Options 9, Section

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<sup>12</sup> Options 9, Section 14(1)(6) states that a long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price ("box spread").

<sup>13</sup> Options 9, Section 14(1)(8) states that a listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

<sup>14</sup> See Securities Exchange Act Release No. 45889 (May 9, 2002), 67 FR 34980 (May 16, 2002) (SR-Phlx-2002-33) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. To Eliminate Position and Exercise Limits for Certain Qualified Hedge Strategies).

14(l)(6) when it relocated rules in a subsequent rule change that copied SR-Cboe-2003-30.<sup>15</sup> Removing the citation to Options 9, Section 14(l)(6) with respect to a position limit equal to five (5) times the standard limit and adding paragraph (l)(6) to the list of exempt transactions in the first sentence of Options 9, Section 14(l) would properly reflect that box spreads are exempt from the position limits prescribed under Options 9, Section 13(a) and (d). At this time, the Exchange has been applying a stricter standard.<sup>16</sup>

Today, NYSE Arca Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American Rule 904 and FINRA Rule 2360(b)(3)(A)(ii) apply the five times standard only to OTC options contracts and exempt box spreads from their position limit rules. At this time, the Exchange has been applying a stricter standard. With this change, members and member organizations would not have a position limit for a box spread and, therefore, would not have to unwind any position as a result of this amendment.

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

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

The Exchange's proposal to amend Options 9, Section 13(l) to remove a reference to box spreads at paragraph (l)(6) so that they do not appear to have five times the position limit does not impose an undue burden on intra-market competition because all Phlx members and member organization that transact box spreads would be exempt from the position limits in Options 9, Section 13(a) and (d).

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<sup>15</sup> See Securities Exchange Act Release No. 51322 (March 4, 2005), 70 FR 12260 (March 11, 2005) (SR-Phlx-2005-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Position Limits and Exercise Limits).

<sup>16</sup> A similar change is being proposed to Nasdaq ISE, LLC rules at Options 9, Section 14.

The Exchange's proposal to amend Options 9, Section 13(l) to remove a reference to box spreads at paragraph (l)(6) so that they do not appear to have five times the position limit does not impose an undue burden on inter-market competition as other options exchanges<sup>17</sup> have similar position limit rules that exempt box spreads from position limits.

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<sup>18</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>19</sup>

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

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<sup>17</sup> See NYSE Arca Commentary .07 to Rule 5.17-O, Commentary .09 to NYSE American Rule 904 and FINRA Rule 2360(b)(3)(A)(ii).

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

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

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-Phlx-2026-04 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-2026-04. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the filing will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-Phlx-2026-04 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>20</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

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

**Nasdaq PHLX LLC Rules**

\* \* \* \* \*

**Options Rules**

\* \* \* \* \*

**Options 2 Options Market Participants**

\* \* \* \* \*

**Section 11. Lead Market Maker Appointment**

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(~~i~~g) A Remote Lead Market Maker does not need to meet the back-up Lead Market Maker staffing requirement pursuant to paragraph (~~d~~e) of this rule.

\* \* \* \* \*

**Options 3 Options Trading Rules**

\* \* \* \* \*

**Section 8. Options Opening Process**

\* \* \* \* \*

(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.

(A) First, the System will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance (unmatched contracts), size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds. The Imbalance Timer will be for the same number of seconds for all options traded on the Exchange. Each Imbalance Message is subject to an Imbalance Timer.

\* \* \* \* \*

**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 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. 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.

[(b) **Applicability.** This rule does not apply to the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), PIXL described within Options 3, Section 13, and orders described within Options 3, Section 12, unless Options 3, Section 10 is specifically referenced within Phlx Rules applicable to the aforementioned functionality.]

(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) **Applicability.** This rule does not apply to the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), PIXL described within Options 3, Section 13, and orders described within Options 3, Section 12, unless Options 3, Section 10 is specifically referenced within Phlx Rules applicable to the aforementioned functionality.

(c) **Zero-Bid Option Series.** In the case where the bid price for any options series is \$0.00, a Market Order accepted into the System to sell that series shall be considered a Limit Order to sell at a price equal to the minimum trading increment as defined in Options 3, Section 3. Orders will be placed on the Limit Order book in the order in which they were received by the System. With respect to Market Orders to sell which are submitted prior to the Opening Process and persist after the Opening Process, those orders are posted at a price equal to the minimum trading increment as defined in Options 3, Section 3.

\* \* \* \* \*

## Section 14. Complex Orders

(a) Definitions.

\* \* \* \* \*

(15) Reserved.[Cancel-Replacement Complex Order. Cancel-Replacement Complex Orders shall mean a single message for the immediate cancellation of a previously received Complex Order and the replacement of that Complex Order with a new Complex Order. If the previously placed Complex order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. The replacement Complex Order will retain the priority of the

cancelled Complex order, if the order posts to the Complex Order Book, provided the price is not amended or size is not increased.]

\* \* \* \* \*

(19) **Complex Directed Order.** A Complex Directed Order is a Complex Order for which a member organization has designated a Directed Market Maker as described in Options 2, Section 10. The component leg(s) of a Complex Order with a Directed Order instruction may allocate pursuant to Options 3, Section 10(a)(1)(C) when the Complex Directed Order legs into the single-leg market provided that the Directed Market Maker is quoting at the better of the internal BBO or the NBBO for a component leg(s) of the Complex Directed Order at the time the Complex Directed Order is received. A Directed Market Maker will not receive an allocation pursuant to Options 3, Section 10(a)(1)(C) for a component leg(s) of a Complex Directed Order if the Directed Market Maker is not quoting at the better of the internal BBO or the NBBO for that leg at the time the Complex Directed Order is received.

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

\* \* \* \* \*

## Section 15. Simple Order Risk Protections

\* \* \* \* \*

(c) The following protections apply to Lead Market Makers and Market Makers on Phlx:

\* \* \* \* \*

(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.

\* \* \* \* \*

## Section 22. Limitations on Order Entry

(a) **Limit Orders.** Member[s] organizations shall not enter Public Customer Limit Orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a Market Maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of Limit Orders to buy and sell the same options contract and the entry of multiple Limit Orders at different prices in the same options series.

\* \* \* \* \*

## Options 8 Floor Trading

\* \* \* \* \*

## Section 25. Floor Allocation

\* \* \* \* \*

(c) *Allocation of the Remainder of the Order Among Lead Market Maker and Floor Market Makers on Parity.* After the application of Options 8, Section 25(a)(1) to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in paragraph (c)(3)(F)(i) below) as follows:

\* \* \* \* \*

(3) *Defined Participation.* Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:

\* \* \* \* \*

(B) except as provided in (A) above, the Defined Participation of the Lead Market Maker and Floor Market Makers on parity is determined as follows:

\* \* \* \* \*

([3]iv) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Rule. Notwithstanding the limitation set forth in subparagraph (3)(A) that limits the Lead Market Maker's entitlement to his/her stated size, for all contracts executed in excess of the disseminated size, the

[Specialist]Lead Market Maker shall be entitled to receive the Enhanced [Specialist]Lead Market Maker Participation as set forth in paragraph (b) of this Rule, as applicable, but not to exceed the [Specialist]Lead Market Maker's Actual Size (if the [Specialist]Lead Market Maker has an Actual Size) in such excess contracts.

(C) *Waiver.* (1) A[n] [ROT]Market Maker (other than an RSQT) or [Specialist]Lead Market Maker may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an "Offer to Waive").

\* \* \* \* \*

### Section 34. FLEX Trading

\* \* \* \* \*

#### (g) Who May Trade FLEX Options.

(1) **Assigned Floor Market Makers and Assigned Lead Market Maker.** A Market Maker or Lead Market Maker may apply on a form prescribed by the Exchange to be assigned in FLEX options. At least two members shall be assigned to each FLEX Option. Only the Lead Market Maker in the non-FLEX Option may be the assigned [Specialist]Lead Market Maker in that FLEX Option ("FLEX Lead Market Maker"). The provisions of Options 8, Section 27(c) regarding market making obligations shall be applicable to assigned Floor Market Makers and assigned Lead Market Makers, such that a market must be provided in any FLEX Option when requested by an Options Exchange Official.

\* \* \* \* \*

#### (i) Position Limits.

(1) There shall be no position limits for FLEX Equity Options, other than as set forth in this paragraph and (4) below. Position limits for cash-settled FLEX Equity Options where the underlying security is an ETF pursuant to subparagraph (f)(6)(A)(2) shall be subject to the position limits set forth in Options 9, Section 13, and subject to the exercise limits set forth in Options 9, Section 15. Positions in such cash-settled FLEX Options shall be aggregated with positions in physically-settled non-FLEX options on the same underlying ETF for the purpose of calculating the position limits set forth in Options 9, Section 13, and the exercise limits set forth in Options 9, Section 15.

(2) FLEX Index Options shall be subject to a separate position limit for broad-based FLEX Index Options, in the aggregate, of 200,000 contracts on the same side of the market, except that there shall be no position limits for FLEX NDX or XND. FLEX Index Options shall otherwise be subject to the same position limits governing index options as provided for within Options 4A, Section 6. FLEX Equity Options shall not be subject to a separate FLEX position limit. Except as provided in subsection (3) of this section (d), positions in FLEX Equity Options shall not be taken into account when calculating position limits for non-FLEX Equity Options, or FLEX or non-FLEX Index Options.

([2]3) Reports. Each member or member organization (other than a Lead Market Maker or Market Maker) that maintains a position on the same side of the market in excess of the standard limit under Options 9, Section 13 for non-FLEX Equity Options of the same class on behalf of its own account or for the account of a customer shall report information on the FLEX Equity Option position, positions in any related instrument, the purpose or strategy for the position and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange.

(4) Additional Margin Requirements. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX Equity Option position in excess of the standard limit for non-FLEX Equity Options of the same class, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirement.

([4]5) Aggregation of FLEX Positions. For purposes of the position limits and reporting requirements set forth in this Rule, FLEX Option positions shall not be aggregated with positions in non-FLEX Options other than as noted in subparagraphs (i)(1) and (i)([4]5)(a)-(c), and position limits in FLEX Index Options on a given index shall not be aggregated with options on any stocks included in the index or with FLEX Index Option positions on another index. Positions in FLEX Currency Options will be aggregated with positions in non-FLEX Currency Options for purposes of determining compliance with the position limits established by Options 9, Section 13. As long as the options positions remain open, positions in FLEX Index Options that expire on a third Friday-of-the-month will be aggregated with positions in non-FLEX Index Options on the same underlying security (“comparable non-FLEX Index Options”), positions in FLEX Equity Options that expire on a third Friday-of-the-month will be aggregated with positions in non-FLEX Equity Options on the same underlying security (“comparable non-FLEX Equity Options”), and shall be subject to the position and exercise limits set forth in this rule, and Options 9, Section 13, 15 and Options 4A, Sections 6 and 19, as applicable.

\* \* \* \* \*

## **Section 39. Option Minor Rule Violations and Order and Decorum Regulations**

### **A. Lead Market Makers**

#### **A-1 Options Floor Based Management System**

\* \* \* \* \*

FBMS is designed to execute orders entered by Lead Market Makers, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a [Specialist]Lead Market Maker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the [Specialist]Lead Market Maker in clearing the Exchange book,

consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the [Specialist]Lead Market Maker on the FBMS. The Lead Market Maker may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Lead Market Makers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Options 3, Section 7, Options 5, Section 2 and Options 8, Section 24.

\* \* \* \* \*

**B-6 Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)**

**Section A**

\* \* \* \* \*

(B) in the event that one or more Floor Market Makers on parity with the Lead Market Maker effect a Total Waiver of their respective entitlements such that the Lead Market Maker is on parity with two Floor Market Makers, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the Lead Market Maker shall be that which the [Specialist]Lead Market Maker would be entitled to receive under this Advice as if the Lead Market Maker had been on parity with two Floor Market Makers.

\* \* \* \* \*

**E-2 Allocation, Time Stamping, Matching and Access to Matched Trades**

\* \* \* \* \*

(i) in a trade involving a Floor Broker, the Floor Broker shall do so, provided that a Floor Broker may delegate this responsibility to the Lead Market Maker (or a back-up to the Lead Market Maker under the Lead Market Maker's direct supervision) if the [Specialist]Lead Market Maker agrees to accept such responsibility, and, in the event of such delegation, the Lead Market Maker (or a back-up to the Lead Market Maker under the Lead Market Maker's direct supervision) shall do so:

(ii) in all other cases where the Lead Market Maker is a participant (i.e., where there is no Floor Broker), the Lead Market Maker (or a back-up to the Lead Market Maker under the [Specialist's]Lead Market Maker's direct supervision) shall do so.

\* \* \* \* \*

**Options 9 Business Conduct**

\* \* \* \* \*

**Section 13 Position Limits**

\* \* \* \* \*

(l) Equity Option Hedge Exemptions. The following qualified hedge transactions and positions described in paragraphs 1-[5]6 below shall be exempt from established position limits as prescribed under sections (a) and (g)[ and (d)(i)] above. Hedge transactions and positions established pursuant to paragraph[s (6) and] (7) below are subject to a position limit equal to five (5) times the standard limit established under sections (a) and (g)[ and (d)(i)].

\* \* \* \* \*

**Section 26. Reserved**

\* \* \* \* \*