

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100138; File No. SR-MRX-2024-11)

May 14, 2024

Self-Regulatory Organizations; Nasdaq MRX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Options 7, Section 6

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 May 1, 2024, Nasdaq MRX, LLC (“MRX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its Rules at Options 7, Section 6.³

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

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Exchange initially filed the proposed pricing changes on November 28, 2023 (SR-MRX-2023-23) to be effective on December 1, 2023. On December 5, 2023, the Exchange withdrew SR-MRX-2023-23 and replaced it with SR-MRX-2023-25. On January 16, 2023, the Exchange withdrew SR-MRX-2023-25 and submitted SR-MRX-2024-02. On March 7, 2024, the Exchange withdrew SR-MRX-2024-02 and submitted SR-MRX-2024-07. On May 1, 2024, the Exchange withdrew SR-MRX-2024-07 and submitted this filing.

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 7, Section 6, Ports and Other Services.

Specifically, the Exchange proposes to amend the monthly caps for SQF Ports⁴ and SQF Purge Ports.⁵

Today, MRX assesses \$1,250 per port, per month for an SQF Port as well as an SQF Purge Port. Today, MRX waives one SQF Port fee per Market Maker per month. Also, today, SQF Ports and SQF Purge Ports are subject to a monthly cap of \$17,500, which cap is applicable to Market Makers.

⁴ “Specialized Quote Feed” or “SQF” is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) 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 Market Maker. Market Makers may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the (i) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection in Options 3, Section 15(a)(1)(A), (1)(B), and (2)(B) respectively, for single leg orders, or (ii) Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders. See Supplementary Material .03(c) to Options 3, Section 7.

⁵ SQF Purge is a specific port for the SQF interface that only receives and notifies of purge requests from the Market Maker. Dedicated SQF Purge Ports enable Market Makers to seamlessly manage their ability to remove their quotes in a swift manner. The SQF Purge Port is designed to assist Market Makers in the management of, and risk control over, their quotes. Market Makers may utilize a purge port to reduce uncertainty and to manage risk by purging all quotes in their assigned options series. Of note, Market Makers may only enter interest into SQF in their assigned options series. Additionally, the SQF Purge Port may be utilized by a Market Maker in the event that the Member has a system issue and determines to purge its quotes from the order book.

At this time, the Exchange proposes to establish an increased SQF Fee and SQF Purge Port Cap to Primary Market Makers and Market Makers that do not provide a minimum amount of liquidity on MRX. This proposed increased SQF Fee and SQF Purge Port Cap is intended to incentivize Primary Market Makers and Market Makers to add liquidity on MRX for the benefit of other market participants in order to lower their fees. MRX proposes to increase the SQF Port and SQF Purge Port Cap to \$27,500 a month if a Primary Market Maker or Market Maker does not transact 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month.⁶ Today, MRX caps an SQF Port and SQF Purge Port at \$17,500 a month. With this proposal, the Exchange would not assess Primary Market Makers and Market Makers an SQF Port and SQF Purge Port Cap beyond the monthly cap of \$27,500, instead of \$17,500, once the Member has exceeded the proposed port cap for the respective month. Primary Market Makers and Market Makers who transacts 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month will continue to be subject to the \$17,500 SQF Port and SQF Purge Port Cap.

Pursuant to Supplementary Material .03(c) to Options 3, Section 7, Market Makers may only enter interest into SQF in their assigned options series. Pursuant to Supplementary Material .03(c) to Options 3, Section 7, the SQF interface allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. An SQF Purge is a specific port for the SQF interface that only receives and notifies of purge requests from the Market Maker. A MRX Market Maker requires only one SQF Port to submit quotes in its assigned options series into MRX. While a Market Maker may elect to

⁶ For purposes of this cap, “Total Customer Volume” shall be defined as a percentage of all cleared customer volume at The Options Clearing Corporation in Multiply Listed Equity Options and Exchange-Traded Products (“TCV”).

obtain multiple SQF Ports and SQF Purge Ports to organize its business,⁷ only one SQF Port and SQF Purge Port is necessary for a Market Maker to fulfill its regulatory quoting obligations.⁸

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁰ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹¹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹² in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed pricing change to increase the SQF Port and SQF Purge Port monthly cap from \$17,500 per month to \$27,500 per month if Primary Market Makers or Market Makers do not transact 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month is reasonable because it will incentivize Primary Market Makers and Market Makers to

⁷ For example, a Market Maker may desire to utilize multiple SQF Ports for accounting purposes, to measure performance, for regulatory reasons or other determinations that are specific to that Member.

⁸ MRX Market Makers have various regulatory requirements as provided for in Options 2, Section 4. Additionally, MRX Market Makers have certain quoting requirements with respect to their assigned options series as provided in Options 2, Section 5. SQF Ports are the only quoting protocol available on MRX and only Market Makers may utilize SQF Ports. The same is true for SQF Purge Ports.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(4) and (5).

add liquidity on MRX to lower their costs. The Exchange believes that the total volume required to achieve the cap is reasonable as the Exchange has limited the volume to simple orders, as not all Market Makers transact complex orders. Further, 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month is an achievable number for Market Makers who currently add volume to the Exchange. Additionally, the Exchange believes that an SQF Fee and SQF Purge Port Cap of \$27,500, in lieu of \$17,500, is reasonable because Primary Market Makers and Market Makers are obligated, among other things, to compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed and to update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed.¹³ The Exchange believes that it is reasonable to increase the SQF Port and SQF Purge Port Cap to \$27,500 for Primary Market Makers and Market Makers that do not transact 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month because the Exchange believes that Primary Market Makers and Market Makers that do not contribute a minimum amount of liquidity on MRX should not be subject to the same opportunities to lower their costs as those Primary Market Makers and Market Makers that do contribute to liquidity and therefore provide the ability for other market participants to engage with that order flow. The Exchange believes that the increase is modest and would serve to encourage Primary Market Makers and Market Makers to submit order flow to MRX in order to lower their cost and would result in additional order competition, which also benefits market participants. The Exchange believes this proposal promotes liquidity, quote competition, and trading opportunities.

SQF Ports and SQF Purge Ports are utilized by Primary Market Makers and Market

¹³ See Options 2, Section 4(b)(1) and (3).

Makers to quote on MRX. A Market Maker may submit all quotes through one SQF Port and utilize one SQF Purge Port to view its purge requests. While a Market Maker may elect to obtain multiple SQF Ports to organize its business,¹⁴ only one SQF Port is necessary for a Market Maker to fulfill its regulatory quoting obligations.¹⁵ For those Market Makers that elect to organize themselves by obtaining a greater number of SQF Ports or SQF Purge Ports, they will be subject to a cap.¹⁶ For Market Makers that only take 1 SQF Port or only a few SQF Ports or SQF Purge Ports, their costs would be far below the \$27,500 or \$17,500 threshold for the cap.

The proposed pricing change to increase the SQF Fee and SQF Purge Cap for Primary Market Makers and Market Makers to \$27,500 a month if Primary Market Makers or Market Makers do not transact 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month is equitable and not unfairly discriminatory as all Primary Market Makers and Market Makers would be able to cap their SQF Port and SQF Purge Port costs at \$17,500, provided they transacted the requisite volume, otherwise Primary Market Makers and Market Makers would be uniformly subject to the \$27,500 SQF Port and SQF Purge Port Cap. The Exchange notes that unlike other market participants, Primary Market Makers are obligated to quote in the Opening Process and intra-day.¹⁷ Additionally, Market Makers may enter quotes in

¹⁴ For example, a Market Maker may desire to utilize multiple SQF Ports and SQF Purge Ports for accounting purposes, to measure performance, for regulatory reasons or other determinations that are specific to that member organization.

¹⁵ Market Makers have various regulatory requirements as provided for in Options 2, Section 4. Additionally, Market Makers have certain quoting requirements with respect to their assigned options series as provided in Options 2, Section 5. SQF Ports are the only quoting protocol available on MRX.

¹⁶ The number of ports that members choose to purchase varies widely. Today, on MRX, 2 Market Makers have 1 SQF Ports/SQF Purge Ports, no Market Makers have 2-5 SQF Ports/SQF Purge Ports, 2 Market Makers have between 6-10 SQF Ports/SQF Purge Ports, and 6 Market Makers have more than 10 SQF Ports/SQF Purge Ports.

¹⁷ See Options 3, Section 8 and Options 2, Section 5.

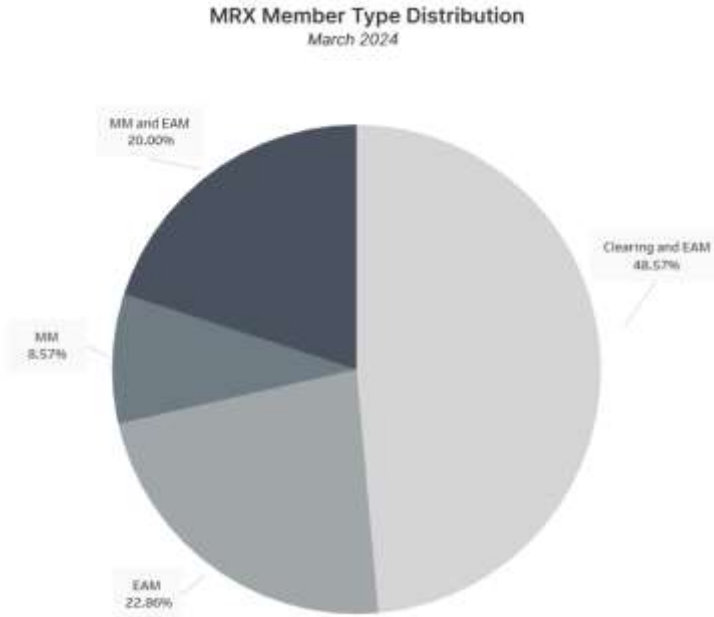
the Opening Process to open an option series and they are required to quote intra-day.¹⁸ Further, unlike other market participants, Primary Market Makers and Market Makers have obligations to compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed and to update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed.¹⁹ Finally, unlike other market participants, Primary Market Makers and Market Makers incur other costs related to their quoting obligations in addition to other fees paid by other market participants. Market Makers are subject to a number of fees, unlike other market participants. Market Makers pay separate Membership Fees,²⁰ and CMM Trading Right Fees,²¹ in addition to other fees paid by other market participants. These liquidity providers are critical market participants in that they are the only market participants that provide liquidity to MRX and are necessary for opening the market. Allowing Primary Market Makers and Market Makers to manage their costs by capping SQF Ports and SQF Purge Ports in addition to transaction fees enables these essential market participants to manage their business model more effectively and better allocate resources to other technologies that are necessary to manage risk and capacity to ensure that these market participants continue to compete effectively on MRX. The following chart represents the classification of MRX members and the percentage of Market Makers.

¹⁸ Id.

¹⁹ See Options 2, Section 4(b)(1) and (3).

²⁰ See Options 7, Section 6, A.

²¹ See Options 7, Section 6, B.



MRX believes Primary Market Makers and Market Makers should be eligible for certain incentives because they fulfill a unique role on the Exchange and are the only market participants required to submit quotes to the Exchange. The proposed SQF Port and SQF Purge Cap is designed to ensure that Primary Market Makers and Market Makers add a certain amount of liquidity on MRX in order to be able to cap their SQF Port and SQF Purge Port Fees at the lower cap of \$17,500 as compared to the increased cap of \$27,500. The Exchange would apply the criteria uniformly when applying the SQF Fee and SQF Purge Cap to Primary Market Makers and Market Makers.

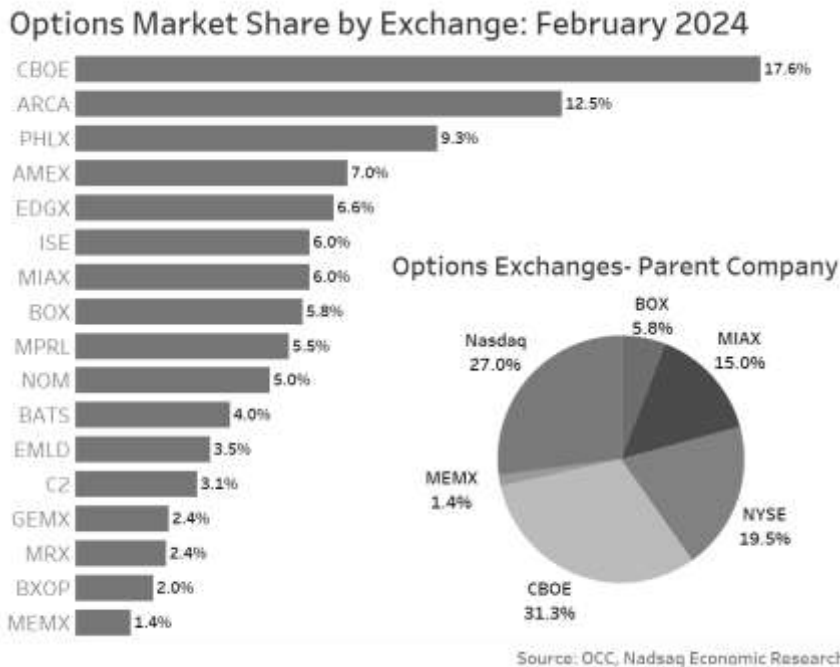
Finally, MRX believes the proposed SQF Fee and SQF Purge Cap is constrained by competitive forces and reasonably designed in consideration of the competitive environment in which the Exchange operates. This fee structure incents Primary Market Makers and Market Makers to support increased liquidity, quote competition, and trading opportunities on the Exchange, for the benefit of all market participants.

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.

Intermarket Competition

The proposal does not impose an undue burden on intermarket competition. The Exchange believes its proposal remains competitive with other options markets who also offer order entry protocols. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. The chart below shows the February 2024 market share for multiply listed options by exchange. Of the 17 operating options exchanges, none currently has more than a 17.6% market share. Customers widely distribute their transactions across exchanges according to their business needs and the ability of each exchange to meet those needs through technology, liquidity and functionality.



Market share is the percentage of volume on a particular exchange relative to the total volume

across all exchanges, and indicates the amount of order flow directed to that exchange. High levels of market share enhance the value of trading and ports.

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

Intramarket Competition

The proposed pricing change to increase the SQF Fee and SQF Purge Cap for Primary Market Makers and Market Makers to \$27,500 a month if Primary Market Makers or Market Makers do not transact 0.50% of Total Customer Volume in electronic simple orders that adds liquidity in a month does not impose an undue burden on competition as all Primary Market Makers and Market Makers would be able to cap their SQF Port and SQF Purge Port costs at \$17,500, provided they transacted the requisite volume, otherwise Primary Market Makers and Market Makers would be uniformly subject to the \$27,500 SQF Port and SQF Purge Port Cap. The Exchange notes that unlike other market participants, Primary Market Makers are obligated to quote in the Opening Process and intra-day.²² Additionally, Market Makers may enter quotes in the Opening Process to open an option series and they are required to quote intra-day.²³ Further, unlike other market participants, Primary Market Makers and Market Makers have obligations to compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed and to update market quotations in response to

²² See Options 3, Section 8 and Options 2, Section 5.

²³ Id.

changed market conditions in all series of options classes to which the Market Maker is appointed.²⁴ Finally, unlike other market participants, Primary Market Makers and Market Makers incur other costs related to their quoting obligations in addition to other fees paid by other market participants. Market Makers are subject to a number of fees, unlike other market participants. Market Makers pay separate Membership Fees,²⁵ and CMM Trading Right Fees,²⁶ in addition to other fees paid by other market participants. These liquidity providers are critical market participants in that they are the only market participants that provide liquidity to MRX and are necessary for opening the market. Allowing Primary Market Makers and Market Makers to manage their costs by capping SQF Ports and SQF Purge Ports in addition to transaction fees enables these essential market participants to manage their business model more effectively and better allocate resources to other technologies that are necessary to manage risk and capacity to ensure that these market participants continue to compete effectively on MRX. MRX believes Primary Market Makers and Market Makers should be eligible for certain incentives because they fulfill a unique role on the Exchange and are the only market participants required to submit quotes to the Exchange. The proposed SQF Port Cap is designed to ensure that Primary Market Makers and Market Makers add a certain amount of liquidity on MRX in order to be able to cap their SQF Port and SQF Purge Port Fees at the lower cap of \$17,500 as compared to the increased cap of \$27,500. The Exchange would apply the criteria uniformly when applying the SQF Fee and SQF Purge Cap to Primary Market Makers and Market Makers.

Finally, MRX believes the proposed SQF Fee and SQF Purge Cap is constrained by competitive forces and reasonably designed in consideration of the competitive environment in

²⁴ See Options 2, Section 4(b)(1) and (3).

²⁵ See Options 7, Section 6, A.

²⁶ See Options 7, Section 6, B.

which the Exchange operates. This fee structure incents Primary Market Makers and Market Makers to support increased liquidity, quote competition, and trading opportunities on the Exchange, for the benefit of all market participants.

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.²⁷ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

²⁷ 15 U.S.C. 78s(b)(3)(A)(ii).

SR-MRX-2024-11 on the subject line.

Paper Comments:

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

All submissions should refer to file number SR-MRX-2024-11. 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-MRX-2024-11 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.²⁸

Sherry R. Haywood,
Assistant Secretary.

²⁸ 17 CFR 200.30-3(a)(12).