

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-89759; File No. SR-BX-2020-023)

September 3, 2020

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Its Rules in Connection with a Technology Migration to Enhanced Nasdaq, Inc. Functionality

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 August 21, 2020, Nasdaq BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II, 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 in connection with a technology migration to enhanced Nasdaq, Inc. (“Nasdaq”) functionality. Each change is discussed below.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/bx/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

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

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

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 in Options 3 (Options Trading Rules) to amend Section 7 (Types of Orders and Order and Quote Protocols) and Section 15 (Risk Protections), and to adopt new Section 11 titled “Auction Mechanisms” and new Section 28 titled “Optional Risk Protections,” each in connection with a technology migration to enhanced Nasdaq functionality, which will result in higher performance, scalability, and more robust architecture. With this system migration, the Exchange intends to adopt certain trading functionality currently utilized at affiliated Nasdaq exchanges or other options exchanges.

The Exchange intends to begin implementation of the proposed rule change on September 14, 2020. The Exchange will issue an Options Trader Alert to Participants to provide notification of the symbols that will migrate, the relevant milestones, and operative dates for specific functionalities.

**Block Order Mechanism**

The Exchange proposes to adopt a new Block Order Mechanism in Options 3, Section 11, which will be entitled “Auction Mechanisms.” The proposed mechanism will provide a means for handling “block-sized orders” (i.e., orders for fifty (50) contracts or more) on BX, and will be materially identical to the Block Order Mechanism currently offered by the Exchange’s affiliate, Nasdaq ISE (“ISE”).

Specifically, proposed Options 3, Section 11(a) will state that the Block Order Mechanism is a process by which a Participant can obtain liquidity for the execution of block-

size orders (“Block Order”). The Block Order Mechanism is for single leg transactions only. As discussed above, the Rule will further define block-size orders as orders for fifty (50) contracts or more. These provisions are consistent with ISE Options 3, Section 11(a).

Proposed subparagraph (a)(1) of Options 3, Section 11 will provide that upon entry of an order into the Block Order Mechanism, a broadcast message will be sent that includes the series, and may include price, size and/or size, as specified by the Participant entering the Block Order, and Participants will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to trade with the Block Order.<sup>3</sup> This is similar to ISE’s process in ISE Options 3, Section 11(a)(1). The Exchange also proposes to add similar definitions of “broadcast message” and “Response” within the Rule. Specifically, for purposes of the Rule, a broadcast message will mean an electronic message that is sent by the Exchange to all Participants, and a Response means an electronic message that is sent by Participants in response to a broadcast message. Also for purposes of the Rule, the time given to Participants to enter Responses for any of the below auction mechanisms shall be designated by the Exchange via an Options Trader Alert, but no less than 100 milliseconds and no more than 1 second.<sup>4</sup>

Proposed subparagraph (a)(2) will provide that at the conclusion of the time given to Participants to enter Responses, either an execution will occur automatically, or the Block Order will be cancelled. Proposed subparagraph (a)(2)(A) will explain the price at which orders entered into the Block Order Mechanism are executed. Specifically, Responses, orders, and quotes will be executed at a single block execution price that is the price for the Block Order at

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<sup>3</sup> The Exchange notes that similar to current ISE functionality, the proposed functionality on BX will allow all Participants, except for the initiating Participant, to respond to the block auction.

<sup>4</sup> See proposed Options 3, Section 11. See also ISE Options 3, Section 11.

which the maximum number of contracts can be executed consistent with the Participant's instruction. Bids (offers) on the Exchange at the time the Block Order is executed that are priced higher (lower) than the block execution price, as well as Responses that are priced higher (lower) than the block execution price, will be executed in full at the block execution price up to the size of the Block Order. This is functionally identical to how ISE's block orders are priced at execution pursuant to ISE Options 3, Section 11(a)(2)(A).<sup>5</sup>

Proposed subparagraph (a)(2)(B) will describe the proposed auction allocation methodology. The proposed allocation for block auctions will follow a Size Pro-Rata<sup>6</sup> methodology that prioritizes Public Customers,<sup>7</sup> similar to the Public Customer Size Pro-Rata allocation process for the BX's Price Improvement Auction ("PRISM"), except PRISM as a paired auction also allocates contracts against the contra order.<sup>8</sup> This is also similar to how Size Pro-Rata allocation normally takes place pursuant to Options 3, Section 10 for interest on the

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<sup>5</sup> While the existing ISE Block rule does not contain the "up to the size of the Block Order" language, this is being added to the BX Block rule to make clear that better priced interest gets executed in full only if there is sufficient size to execute against such interest. This is identical to how ISE Block Orders are executed and priced today.

<sup>6</sup> The Exchange is amending the definition of Size Pro-Rata within Options 3, Section 10(a)(1)(B) in a concurrent filing. As amended, Size Pro-Rata will mean that 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. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded up to the nearest whole number. See Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-2020-017).

<sup>7</sup> The term "Public Customer" means a person that is not a broker or dealer in securities. See Options 1, Section 1(a)(49). The Exchange is also concurrently amending this rule to provide that a Public Customer is not a Professional as defined within the BX rules. See Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-2020-017).

<sup>8</sup> See Options 3, Section 13(ii)(E).

Exchange's order book.<sup>9</sup> As proposed, at the block execution price, Public Customer Orders and Public Customer Responses will be executed first in price time priority, and then quotes, non-Public Customer Orders, and non-Public Customer Responses will participate in the execution of the Block Order based upon the percentage of the total number of contracts available at the block execution price that is represented by the size of the quote, non-Public Customer Order, or non-Public Customer Response. This is functionally identical to ISE's block auction allocation methodology.<sup>10</sup> Similar to ISE, the proposed Block Order Mechanism is designed to provide an opportunity for Participants to receive liquidity for their Block Orders, and will therefore trade at a price that allows the maximum number of contracts of the Block Order to be executed against both Responses entered to trade against the order and unrelated interest on the Exchange's order book.

For example, if a Participant enters a Block Order to buy 100 contracts at \$1.00 into the Block Order Mechanism, and Participants enter Response A to sell 50 contracts at \$0.90 and Response B to sell 40 contracts at \$0.95, the block execution price would be \$0.95 as this is the price at which the maximum number of contracts could be executed. The Block Order and both Responses would then be executed at this single block execution price. Responses A and B would be executed in full since there is sufficient size to execute both Responses against the Block Order. In addition, if two other Participants also enter Responses C (Public Customer) and D (non-Public Customer) to sell at \$0.98 for 10 contracts each, the block execution price would be \$0.98 as additional contracts could be executed at that price. In that instance,

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<sup>9</sup> See Options 3, Section 10(a)(1)(C)(2)(i).

<sup>10</sup> See ISE Options 3, Section 11(a)(2)(B). The reference to "Professional" interest in ISE's rule essentially means non-Priority Customer interest. See ISE Options 1, Section 1(a)(39), which defines a Professional Order as an order that is for the account of a person or entity that is not a Priority Customer.

Responses A and B, which are priced better than the block execution price, would be executed in full, while Responses C and D, which are priced at the block execution price, would participate in accordance with the allocation methodology described in the proposed rule – i.e., the remaining 10 contracts would go to Response C, which is the Public Customer Response.

The Exchange proposes in subparagraph (a)(3) that if a trading halt is initiated after an order is entered into the Block Order Mechanism, such auction will be automatically terminated without execution. This mirrors ISE Options 3, Section 11(a)(3). Lastly, the Exchange proposes to amend Options 3, Section 7 to add Block Orders to the list of order types. As proposed, Options 3, Section 7(a)(12) will provide that a Block Order is an order entered into the Block Order Mechanism as described in Options 3, Section 11(a).<sup>11</sup> ISE Options 3, Section 7(v) similarly defines Block Order as an order type.

### **Order Price Protection**

The Exchange proposes to amend its Order Price Protection (“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 affiliate, The Nasdaq Options Market (“NOM”). 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 BX. 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.

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<sup>11</sup> The Exchanges notes that it is concurrently amending Options 3, Section 7(a) in SR-BX-2020-017. The proposed changes herein to add Block Orders in Section 7(a) assumes the Section 7(a) rule changes in SR-BX-2020-017 are effective prior to the effectiveness of this filing.

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 market orders or Intermarket Sweep Orders. OPP is operational each trading day after the opening until the close of trading, except during trading halts. OPP assists Participants in controlling risk by checking each order, before it is accepted into the System, against certain parameters. Today, as set forth in 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.

The Exchange now 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 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 Options 3, Section 15(a)(1)(B). Similar to NOM, 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 BX 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 BX 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: Reject buy orders priced greater than \$1.62 - \$0.60 through 1.02 (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 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, 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, which will 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, 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). Participants 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 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") from the OPP rule. With the proposed amendment, OPP will apply to ISOs. The Exchange does not apply OPP to ISOs today because 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.

### **Market Wide Risk Protection**

The Exchange proposes to introduce new order entry and execution rate checks that are currently available on ISE.<sup>12</sup> The proposed risk protections will be substantially similar to the current risk protections on ISE except to account for certain functional differences relating to the

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<sup>12</sup> See ISE Options 3, Section 15(a)(1)(C).

ability of ISE's protections to apply cross-market across ISE and Nasdaq GEMX ("GEMX").<sup>13</sup> These two new risk protections are designed to aid Participants in their order risk management by supplementing current price reasonability checks with activity based order protections.<sup>14</sup> The Exchange proposes to detail these risk protections in proposed Options 3, Section 15(a)(3), entitled "Market Wide Risk Protection."

Pursuant to the proposed Market Wide Risk Protection ("MWRP") rule, the Exchange's trading system ("System") will maintain one or more counting programs for each Participant that count orders entered and contracts traded on BX.<sup>15</sup> Participants can use multiple counting programs to separate risk protections for different groups established within the Participant. The counting programs will maintain separate counts, over rolling time periods specified by the Participant for each count, of: (1) the total number of orders entered in the order book; and (2) the total number of contracts traded.

All Participants 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 Participants, 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 Participants the flexibility needed to appropriately tailor the MWRP to their respective risk management needs. In this regard, the Exchange notes that each Participant is in the best

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<sup>13</sup> The Exchange also notes that ISE's current functionality applies to complex orders, which BX does not offer today.

<sup>14</sup> The Exchange currently provides Participants 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.

<sup>15</sup> Unlike ISE's MWRP, which may apply cross-market across ISE and GEMX, the MWRP on BX will not apply cross-market to other affiliated exchanges.

position to determine risk settings appropriate for their firm based on the Participant'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 Participants 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 Participants. The Exchange notes that this is consistent with ISE's approach on providing ISE members with the flexibility to establish their own MWRP order entry and execution rate parameters, as set forth in ISE Options 3, Section 15(a)(1)(C). The Exchange also notes that similar to ISE, Participants 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 minimum and maximum duration of the applicable time period established by the Exchange and announced via an Options Trader Alert.<sup>16</sup>

Pursuant to proposed Options 3, Section 15(a)(3)(A) – (C), if, during the applicable time period, the Participant exceeds the thresholds that it has set for any of the order entry or execution counts described above on BX, the System will automatically reject all subsequent incoming orders entered by the Participant. Participants may also choose to have the System automatically cancel all of their existing orders on BX when the MWRP is triggered. The MWRP will remain engaged until the Participant manually notifies the Exchange to enable the acceptance of new orders. For Participants 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 Participants to interact with existing orders entered before the protection was triggered, including sending cancel order messages and receiving trade executions for those

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<sup>16</sup> See proposed Options 3, Section 15(a)(3). See also ISE Options 3, Section 15(a)(1)(C).

orders. The action taken in proposed subparagraphs (A) – (C) is similar to ISE Options 3, Section 15(a)(1)(C)(i) – (iii).

The Exchange believes that the proposed MWRP will assist Participants in better managing their risk when trading on BX. In particular, the proposed rule change provides functionality that allows Participants 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 ISE has implemented the MWRP on ISE, and the Exchange believes this functionality will likewise be beneficial for BX Participants.

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

***Example: Order Entry Rate Protection:***

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 BX 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 BX 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.

### **Anti-Internalization**

The Exchange proposes to enhance the anti-internalization (“AIQ”) functionality provided to Market Makers on the Exchange by giving Participants the flexibility to choose to have this protection apply at the Market Maker identifier level (i.e., existing functionality), at the Exchange account level, or at the Participant 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 pursuant to ISE Options 3, Section 15(a)(3)(A).

Currently, as provided in 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 Participants to choose to have this protection applied at the market participant identifier level as implemented today, at the Exchange account level, or at the Participant firm level. If Participants 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 Participants choose to have this protection applied at the Participant firm level, AIQ would prohibit quotes and orders from different market participant identifiers within the Participant firm from trading against one another. The Exchange believes that the proposed AIQ enhancement will provide Participants with more tailored functionality that allows them to manage their trading as appropriate based on the Participants' 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 Participant firm level so that they are protected regardless of which Market Maker identifier the order or quote originated from. ISE Options 3, Section 15(a)(3)(A) offers similar flexibility. Lastly, the Exchange proposes to clarify that AIQ does not apply during the opening process or reopening process following a trading halt pursuant to Options 3, Section 8 to provide more specificity on how this functionality currently operates. The Exchange notes that the same procedures used during the opening process are used to reopen an option series after a trading halt, and therefore proposes to specify that AIQ will not apply during an Opening Process (i.e., the opening and halt reopening process) in addition to an auction, as currently within the Rule.<sup>17</sup> AIQ is unnecessary during an Opening Process due to the high level of control that Market Makers exercise over their quotes during this process.

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<sup>17</sup> While ISE Options 3, Section 15(a)(3)(A) does not currently specify that ISE's AIQ would not apply during an Opening Process, the Exchange notes that ISE's functionality operates in the same manner today.

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

***Example: Market Participant Identifier Level***

Participant 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 Participant ABC has configured AIQ to apply at the market participant identifier level. This is the same as existing functionality.

***Example: Exchange Account Level***

Participant 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 Participant ABC has configured AIQ to apply at the Exchange account level. This is new functionality as the Participant has opted to have AIQ operate at the Exchange account level.

***Example: Participant Firm Level***

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

### **Quotation Adjustments**

The Exchange proposes to amend 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 ISE pursuant to ISE Options 3, Section 15(a)(3)(B), except the Exchange will offer the new thresholds as optional risk protections.<sup>18</sup> 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 ISE's rule structure.<sup>19</sup> With the proposed changes, Rapid Fire and Multi-Trigger will be triggered only when a Market Maker exceeds its designated thresholds similar to ISE'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 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.<sup>20</sup> The Exchange now proposes to introduce two optional thresholds which, in addition to the existing percentage-

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<sup>18</sup> The Delta and Vega thresholds on ISE are currently mandatory protections.

<sup>19</sup> As presently set forth in 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.

<sup>20</sup> See Options 3, Section 15(c)(2)(G). In contrast, the Multi-Trigger threshold is optional.

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 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, 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 ISE Options 3, Section

15(a)(3)(B)(i)(c), except to indicate that the Exchange's threshold will be an optional feature.

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

(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, 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 ISE Options 3, Section

15(a)(3)(B)(i)(d), except to indicate that the Exchange's threshold will be an optional feature.

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 ISE Options 3, Section 15(a)(3)(B). In restructuring these rules, the existing BX 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.

To effect this change, the Exchange proposes to adopt new rule text in 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 ISE 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. As noted above, this is different from ISE’s approach, which currently requires ISE Market Makers to utilize all four thresholds. 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 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.<sup>21</sup> 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.<sup>22</sup> The proposed changes on BX relating to when Rapid Fire will be triggered and the Specified Time Periods will align with ISE Options 3, Section 15(a)(3)(B)(i). By harmonizing BX’s Rapid Fire

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<sup>21</sup> See Options 3, Section 15(c)(2)(A) and (B).

<sup>22</sup> Id.

rule to ISE'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 BX that are also participants on ISE. 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 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.<sup>23</sup>

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

(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 Market Maker's quote size available at the time of execution plus the total number of the Market Maker'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

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<sup>23</sup> See id. for similar features in the current Percentage and Volume Thresholds.

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 Percentage Threshold will be triggered and the threshold's Specified Time Period). The proposed rule text is identical to ISE Options 3, Section 15(a)(3)(B)(i)(a).

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

(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.

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 ISE Options 3, Section 15(a)(3)(B)(i)(b).

In connection with the foregoing changes, current Options 3, Section 15(c)(2)(C), which describes the Exchange's Multi-Trigger risk protection, will be renumbered to Section 15(c)(2)(B) and 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).

Options 3, Section 15(c)(2)(D) (renumbered to Section 15(c)(2)(C)), 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.

Options 3, Section 15(c)(2)(E) (renumbered to Section 15(c)(2)(D)) will likewise be amended to add references to the Delta and Vega Thresholds, and will state that if a BX 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.<sup>24</sup> As is the case today, the Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.

Options 3, Section 15(c)(2)(F) (renumbered to Section 15(c)(2)(E)), 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

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<sup>24</sup> The Specified Time Period(s) will also be automatically reset if Rapid Fire is triggered (and the System automatically removes quotes).

add, “[w]hen the System removes quotes as a result of exceeding...” in order to align with ISE Options 3, Section 15(a)(3)(B)(iv). 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) (renumbered to Section 15(c)(2)(F)), will be amended to specify that the Delta and Vega Thresholds, in addition to the Multi-Trigger Threshold, are optional.

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

***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

**Notional Value Protections**

The Exchange proposes to introduce optional notional value checks in new Options 3, Section 28, entitled “Optional Risk Protections.” Participants may use this voluntary

functionality through their FIX<sup>25</sup> protocols to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, Participants may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1) – (4):

- Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;
- Aggregate notional dollar value;
- Quantity per order; and
- Aggregate quantity

Proposed paragraph (b) will provide that Participants may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order and/or daily aggregate value for an order protection. Participants may modify their settings through Market Operations. Proposed paragraph (c) will provide that the System will reject all incoming aggregated Participant orders through FIX if the value configured by the Participant, for any of the above-referenced risk protections, is exceeded. Lastly, proposed paragraph (d) will specify that if a Participant sets a notional dollar value, a Market Order would not be accepted from that Participant as 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. The Exchange notes that similar notional value checks are currently offered as optional risk protections by other

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<sup>25</sup> “Financial Information eXchange” or “FIX” is the Exchange’s order entry protocol, and is defined as an interface that allows Participants 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. See Options 3, Section 7(d)(1)(A).

options markets.<sup>26</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>27</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>28</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 is generally intended to add or align certain System functionality with functionality currently offered by ISE and NOM in order to provide a more consistent technology offering across affiliated Nasdaq exchanges. A more harmonized technology offering, in turn, will simplify the technology implementation, changes, and maintenance by market participants of BX that are also participants on Nasdaq affiliated exchanges. The Exchange's proposal will also provide market participants with access to optional notional risk protections that are available on other markets other than the Nasdaq affiliated exchanges, and may provide more efficient risk management and additional flexibility to the Exchange's System and its market participants. The proposed rule change 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

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<sup>26</sup> For example, Cboe Options ("Cboe") offers voluntary functionality that, if enabled by the user, provides that the Cboe trading system would cancel or reject an incoming order or quote with a notional value that exceeds the maximum notional value a user establishes for each of its ports. See Cboe Rule 5.34(c)(3). Cboe also offers voluntary functionality in which a user may establish risk limits defined by certain parameters, of which the notional value of executions is a parameter option. See Cboe Rule 5.34(c)(4).

<sup>27</sup> 15 U.S.C. 78f(b).

<sup>28</sup> 15 U.S.C. 78f(b)(5).

market participants. As such, the proposed rule change 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. The Exchange also believes that more consistent rules will increase the understanding of the Exchange's operations for Participants that are also participants on the Nasdaq affiliated exchanges, thereby contributing to the protection of investors and the public interest.

### **Block Order Mechanism**

The Exchange believes that the proposed rule change to adopt the Block Order Mechanism will offer market participants with additional functionality for seeking out liquidity for larger-sized orders, which will provide greater flexibility in pricing such block-sized orders and may provide more opportunities for price improvement. The proposed auction is functionally identical to ISE's Block Order Mechanism. Similar to ISE, the proposed Block Order Mechanism will provide equal access to Block Orders for all market participants, as all Participants that subscribe to the Exchange's data feeds will have the opportunity to interact with Block Orders entered through this mechanism.<sup>29</sup> The proposed auction is intended to benefit investors because it is designed to provide investors seeking to execute any block-sized orders with opportunities to access additional liquidity and potentially receive price improvement. The proposed rule change may result in increased liquidity available at improved prices for Participants' orders. The Exchange believes that the Block Order Mechanism will promote and

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<sup>29</sup> Auction notifications will be disseminated through the BX Depth of Market ("BX Depth") data feed. See Options 3, Section 23(a). The Exchange is amending this Rule to provide that BX Depth will also provide auction notifications. See Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (August 10, 2020) (SR-BX-2020-017). Any Participant can subscribe to the options data disseminated through this feed and through all of the Exchange's other data feeds.

foster competition and provide more options contracts with the opportunity to seek liquidity and potential price improvement.

The Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system because the Block Order Mechanism will be functionally identical to the mechanism currently available on the ISE. The Exchange believes that the consistency will benefit investors by promoting a fair and orderly national options market system.

The Exchange believes that the proposed rule change will result in efficient trading and reduce the risk for investors that seek to access additional liquidity and potential price improvement for block-sized orders by providing additional opportunity to do so. The proposed priority and allocation rules for the Block Order Mechanism are similar to the Exchange's current customer priority size pro-rata allocation methodology that gives priority to Public Customer orders. The Exchange believes this will ensure a fair and orderly market by maintaining priority of orders and quotes and protecting Public Customer orders, while still affording the opportunity to seek liquidity and for potential price improvement during each Block auction commenced on the Exchange.

By keeping the priority and allocation rules for a Block auction similar to the standard allocation used on the Exchange, the proposed rule change will reduce the ability of market participants to misuse this mechanism to circumvent standard priority rules in a manner designed to prevent fraudulent and manipulative acts and practices, and to promote just and equitable principles of trade on the Exchange. The proposed execution and allocation rules will allow Block Orders to interact with interest on the Exchange's order book in an efficient and orderly

manner. The Exchange believes this interaction of orders will benefit investors by increasing the opportunity for options orders to receive executions.

### **Order Price Protection**

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 BX to establish appropriate boundaries for rejecting potentially erroneous orders while continuing to allow Participants 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 to execution 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 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 when the incoming order is \$1.00 from the Reference BBO.

The Exchange believes that its proposal is consistent with the Act because the fixed amount provides for a larger range of executions within the \$1.00 variance 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, 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 has identical language in NOM Options 3, Section 15(a)(1)(A), and similar to NOM, 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, 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 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.

### **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 Options 3, Section 15(a)(1)(C). Similar to ISE, the Exchange believes that the proposed rule change may reduce Participant risk by allowing them to properly 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 Participants to better manage their risk when trading options on the Exchange by

limiting the Participant'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 Participants. 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 Participants 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, Participants 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 Participants 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 Participants, some Participants may prefer not to trade with quotes and orders entered by different market participant identifiers within the same Exchange account or Participant firm. The Exchange is therefore proposing to provide Participants with flexibility with respect to how AIQ is implemented. As such, Participants can continue to use current functionality, or Participants that prefer to prevent self-trades across different market participant identifiers within the same Exchange account or at the Participant firm level will now be provided with the means to do so under this proposal. Similar flexibility is offered on ISE.<sup>30</sup> Similar to ISE, the Exchange believes that flexibility to apply AIQ at the Exchange account or Participant firm level would be useful for the Exchange's Participants 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. Lastly, the Exchange believes its proposal to clarify that AIQ will not apply during an Opening Process is consistent with the Act as it would provide more specificity on how this functionality currently operates. As discussed above, AIQ is unnecessary during an Opening Process due to the high level of control that Market Makers exercise over their quotes during this process.

### **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

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<sup>30</sup> See ISE Options 3, Section 15(a)(3)(A). See also NOM Options 3, Section 15(c)(1), which provides similar flexibility for NOM's AIQ.

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 Options 3, Section 15(a)(3)(B). Similar to ISE, the Exchange believes that the proposed rule change may reduce Market Maker risk by allowing them to properly 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 rules. With the proposed changes, BX'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 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 BX and ISE will contribute to less complexity and reduce potential confusion for market participants on BX that are also participants on ISE. 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.

### **Notional Value Protections**

The Exchange believes that introducing the optional notional value 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. As noted above, other options exchanges such as Cboe offer similar optional notional risk protections.<sup>31</sup> In addition, providing Participants with more tools for managing risk will facilitate transactions in securities because Participants 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.

#### **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.

The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As it relates to the proposed Block Order Mechanism, the proposed functionality is designed to increase competition for order flow on the Exchange in a manner intended to be beneficial to investors seeking to effect block-sized orders with an opportunity to access additional liquidity and potentially receive price improvement. The Exchange will offer this mechanism to all Participants, and use of the proposed functionality will be completely voluntary.

The Exchange further believes that all of the proposed changes related to the risk protections described above do not impose an undue burden on intramarket competition as they are all aimed at mitigating market participant risk associated with trading on the Exchange. The

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<sup>31</sup> See supra note 26.

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 notional value checks) are completely voluntary.

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 the rules of ISE and NOM, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. The Exchange anticipates that the proposed Block Order Mechanism will create new opportunities for the Exchange to attract new business and compete on an equal footing with other options exchanges with similar auctions. 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 BX a more attractive or favorable venue.

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 Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>32</sup> and Rule 19b-4(f)(6) thereunder.<sup>33</sup> Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant

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<sup>32</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>33</sup> 17 CFR 240.19b-4(f)(6).

burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.<sup>34</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>35</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>36</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. The proposed rule change is related to a technology integration that the Exchange states will align BX's system functionality with functionality currently offered on other Nasdaq-affiliated exchanges and is expected to begin on September 14, 2020. The Commission believes that waiver of the operative delay will permit the proposed rule change to be operative by that date. Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.<sup>37</sup>

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<sup>34</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 Commission has waived the pre-filing requirement.

<sup>35</sup> 17 CFR 240.19b-4(f)(6).

<sup>36</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>37</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)<sup>38</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2020-023 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-BX-2020-023. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

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<sup>38</sup> 15 U.S.C. 78s(b)(2)(B).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-BX-2020-023 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>39</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>39</sup> 17 CFR 200.30-3(a)(12).