(SECURITIES AND EXCHANGE COMMISSION)

(Release No. 34-76301; File No. SR-BX-2015-032)

October 29, 2015

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to Adopt a New Price Improvement Auction, BX PRISM

I.   Introduction

On August 19, 2015, NASDAQ OMX BX, Inc. ("BX" or "Exchange") filed with the

Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the

Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change

to establish an options price improvement mechanism ("PRISM"). On September 2, 2015, BX

filed Amendment No. 1 to the proposal. The proposed rule change, as modified by Amendment

No. 1, was published for comment in the Federal Register on September 10, 2015.[3] The

Commission received no substantive comments regarding the proposal.[4] On October 22, 2015,

BX granted an extension of time for Commission action until October 30, 2015. On October 23,

2015, BX filed Amendment No. 2 to the proposal.[5] The Commission is publishing this notice to

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

[2]   17 CFR 240.19b-4.

[3]   See Securities Exchange Act Release No. 75827 (September 3, 2015), 80 FR 54601 ("Notice").

[4]   See infra note 5 (noting that when BX submitted Amendment No. 2, it also submitted the document as a comment letter to the file to promote the public dissemination of its Amendment).

[5]   In Amendment No. 2, BX makes certain technical and clarifying changes to the proposal, which BX believes does not result in any material differences over its original filing as modified by Amendment No. 1. Specifically, BX proposes to: (i) remove the term "displayed"; (ii) describe "rejected" orders more accurately as "immediately cancelled" in certain circumstances; (iii) provide more specificity as to the amounts of allocations for which an Initiating Participant is entitled to be allocated; (iv) remove an incorrect reference to "orders" and define interest more specifically; (v) add more specificity related to Customer-to-Customer orders; (vi) correct a citation error; and (vii) correct

solicit comment on Amendment No. 2 from interested persons and is approving the proposed

rule change, as modified by Amendment Nos. 1 and 2, on an accelerated basis, with certain

provisions subject to a pilot period scheduled to expire on July 18, 2016.

II.   Description of the Proposal

BX proposes to establish a price-improvement mechanism, "PRISM," on the Exchange's

options platform, in which a BX Participant (an "Initiating Participant") may electronically

submit for execution a two-sided paired order, where one side is an order it represents as agent

on behalf of a Public Customer,[6] Professional customer, broker-dealer, or any other entity

("PRISM Order") and the other side is principal interest or any other order it represents as agent

(an "Initiating Order") provided that the member first exposes the PRISM Order in the PRISM

Auction ("Auction") pursuant to the proposed Rule.

A.   Auction Eligibility Requirements

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typographical errors. Amendment 2 amends and replaces the original filing, as modified by Amendment 1, in its entirety.   To promote transparency of its proposed amendment, when BX filed Amendment No. 2 with the Commission, it also submitted Amendment No. 2 as a comment letter to the file, which the Commission posted on its website and placed in the public comment file for SR-BX-2015-032. The Exchange also posted a copy of its Amendment No. 2 on its website when it filed the amendment with the Commission.

[6]   For purposes of this Rule, a Public Customer order does not include a Professional order, and therefore a Professional would not be entitled to Public Customer priority as described herein. A Public Customer means a person that is not a broker or dealer in securities. See BX Chapter I, Section 1(a)(50). A Public Customer order does not include a Professional order for purposes of BX Chapter VI, Section 10(a)(C)(1)(a), which governs allocation priority. A "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants. See BX Chapter I, Section 1(a)(49).

All options traded on the Exchange are eligible for PRISM.[7] To initiate a PRISM

Auction, an Initiating Participant first must "stop" the PRISM Order at a price that is equal to or

better than the NBBO. In addition, the proposed rules governing the eligible stop price

recognize a distinction between PRISM Orders for Public Customers and PRISM Orders for

non-Public Customers. Specifically, a PRISM Order that is a Public Customer Order must be

stopped at an improved price over any resting a limit orders on the book on the same side as the

PRISM Order. A PRISM Order that is for a non-Customer (account of a broker-dealer or any

other person or entity that is not a Public Customer) is always required to improve the same side

BX BBO as the PRISM Order, even if there is no resting limit order on the book. PRISM Orders

that do not comply with the aforementioned auction eligibility requirements will be immediately

cancelled. In addition, PRISM Orders submitted at or before the opening of trading are not

eligible to initiate an Auction and will be rejected. PRISM Orders submitted during the final two

seconds of the trading session are not eligible to initiate an Auction and will be immediately

cancelled. Finally, an Initiating Order may not be a solicited order for the account of any BX

Options Market Maker assigned in the affected series.[8]

B.   Auction Process

To initiate the Auction, the Initiating Participant must mark the PRISM Order for Auction

processing, and specify either: (a) a single price at which it seeks to execute the PRISM Order (a

"stop price"); (b) that it is willing to automatically match as principal or as agent on behalf of an

Initiating Order the price and size of all PRISM Auction Notifications ("PAN") responses, and

trading interest ("auto-match") in which case the PRISM Order will be stopped at the NBBO on

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[7]   See proposed BX Chapter VI, Section 9(i).

[8]   See proposed BX Chapter VI, Section 9(i)(C) through (F).

the Initiating Order side;[9] or (c) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to a maximum specified price (a "No Worse Than" or "NWT" price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the BX BBO on the same side of the market as the PRISM Order represents a limit order on the book, the stop price must be at least one minimum trading increment (specified in Chapter VI, Section 5) better than the booked limit order's limit price.

Only one Auction would be conducted at a time in any given series. Once the Initiating Participant has submitted a PRISM Order for exposure in the Auction, such PRISM Order may not be modified or cancelled, nor may any Auction be cancelled once it has commenced. Under any of the circumstances described above, the stop price or NWT price may be improved to the benefit of the PRISM Order during the Auction, but may not be cancelled.

Under the proposal, except for rounding purposes, the Initiating Participant would not receive an allocation percentage of more than 50% with one competing quote, order or PAN response, or 40% with multiple competing quotes, orders or PAN responses at the final price point, when competing quotes, orders or PAN responses have contracts available for execution.[10] However, when starting an Auction, the Initiating Participant may submit the Initiating Order with a designation of "surrender" to other PRISM Participants ("Surrender"), which will result in the Initiating Participant forfeiting priority and trade allocation privileges. If Surrender is

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[9]   This is accomplished by marking the Initiating Order with a market (MKT) price.

[10]   See proposed BX Chapter VI, Section 9(ii)(A)(1).

specified, the Initiating Participant would trade only if there were not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price.[11] Surrender information would not be available to other market participants and may not be modified after the order is submitted to the Auction.

When the Exchange receives a PRISM Order for Auction, a PAN detailing the side, size and options series of the PRISM Order would be sent over the Exchange's Specialized Quote Feed and BX Depth Feed. PRISM Auctions would be for a specified duration of no less than one hundred milliseconds and no more than one second, as determined by the Exchange and announced on the Nasdaq Trader website.[12] Any person or entity may submit a response to the PAN, provided such response is properly marked specifying price, size, and side of the market. PAN responses would not be visible to Auction participants, including the initiator, and would not be disseminated to OPRA. The minimum price increment for PAN responses and for an

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[11]   Surrender will not be permitted if both the Initiating Order and PRISM Order are Public Customer Orders. See proposed BX Chapter VI, Section 9(ii)(A)(1).

[12]   In May 2014, NASDAQ OMX PHLX LLC's ("Phlx") staff distributed a survey to all Phlx market maker firms inquiring as to the timeframe within which these market participants respond to an auction with a duration time ranging from less than fifty (50) milliseconds to more than one (1) second. According to BX, the market marker firms on Phlx represent membership similar to BX Market Makers, and 90 percent of the BX Market Maker firms participated in the survey. Of the thirty five (35) Phlx market maker firms that were surveyed, twenty (20) of these market makers responded to the survey and of those respondents 100% indicated that that their firm could respond to auctions with a duration time of at least 50 milliseconds. Based on the results of the survey, the Exchange believes that allowing for an auction period of no less than one hundred (100) milliseconds and no more than one (1) second would provide a meaningful opportunity for BX Participants to respond to the PRISM Auction while at the same time facilitating the prompt execution of orders. Based on experience with the Phlx's PIXL mechanism on BX's affiliated exchange, BX believes that 100 milliseconds will continue to provide all market participants with sufficient time to respond, compete, and provide price improvement for orders and will provide investors and other market participants with more timely executions, thereby reducing their market risk.

Initiating Participant's stop price and/or NWT price would be the minimum price improvement increment established pursuant to proposed Rule Chapter VI, Section 9(i)(A).[13]

A PAN response size at any given price point may not exceed the size of the PRISM Order. Any such oversized response would be immediately cancelled. A PAN response must be equal to or better than the NBBO at the time of receipt of the PAN response or it would be immediately cancelled. PAN responses may be modified or cancelled during the Auction. PAN responses on the same side of the market as the PRISM Order are considered invalid and will be immediately cancelled. Finally, multiple PAN responses from the same Participant may be submitted during the Auction. However, multiple orders at a particular price point submitted by a Participant in response to a PAN may not exceed, in the aggregate, the size of the PRISM Order.[14]

C.   Conclusion of an Auction

The PRISM Auction would conclude at the earlier of: (i) the end of the Auction period; (ii) any time the BX BBO crosses the PRISM Order stop price on the same side of the market as the PRISM Order;[15] or (iii) any time there is a trading halt[16] on the Exchange in the affected series.[17]

If the PRISM Auction concludes earlier than the end of the prescribed Auction period, the entire PRISM Order will be executed at: (i) in the case of the BX BBO crossing the PRISM

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[13]   See proposed BX Chapter VI, Section 9(ii)(A)(2) through (6).

[14]   See proposed BX Chapter VI, Section 9(ii)(A)(7) through (10).

[15]   This provision regarding the BX BBO crossing the PRISM Order stop price on the same side of the market as the PRISM Order, as a conclusion to a PRISM Auction, would be subject to a pilot period scheduled to expire July 18, 2016.

[16]   This provision regarding the trading halt, as a conclusion to a PRISM Auction, would be subject to a pilot period scheduled to expire July 18, 2016.

[17]   See proposed BX Chapter VI, Section 9(ii)(B).

Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at the minimum trading increment better than the price of such limit order at the time of the conclusion of the Auction; or (ii) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order.[18]

Any unexecuted PAN responses will be cancelled.[19] An unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction.[20] If contracts remain from such unrelated order at the time the auction ends, they will be considered for participation in the order allocation process.

1.   Order Allocation – Size Pro-Rata

At the conclusion of the Auction, for option classes governed under BX's Size Pro-Rata execution algorithm, the PRISM Order will be allocated at the best price(s), pursuant to the priority set forth in Chapter VI, 9(ii)(E)(1) through (5).[21] First, Public Customer orders would

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[18]   See proposed BX Chapter VI, Rule 9(ii)(C).

[19]   See id.

[20]   See proposed BX Chapter VI, Section 9(ii)(D). This provision would be subject to a pilot period scheduled to expire on July 18, 2016. The Commission notes that this provision is based on a similar provision in Phlx's Price Improvement XL ("PIXL") auction. See Phlx Rule 1080(n).

[21]   See Notice, supra note 3, at 54607-54610, for examples illustrating trade allocations under the Size Pro-Rata execution algorithm.

have time priority at each price level. Next, the Initiating Participant would receive an allocation after Public Customer orders.[22]

If the Initiating Participant selected the single stop price option, PRISM executions will occur first at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price.

If the Initiating Participant selected the auto-match option, the Initiating Participant would be allocated a number of contracts equal to the aggregate size of all other quotes, orders, and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant would be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after Public Customer interest has been satisfied but before remaining interest receives an allocation.

If the Initiating Participant selected the "stop and NWT" option, contracts would be allocated as follows: (i) first to quotes, orders, and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to proposed Chapter VI, Section 9(ii)(E)(3) through (5), at each price point; and (ii) next, to quotes, orders, and PAN responses at prices at the Initiating Participant's NWT price and better than the Initiating Participant's stop price, beginning with the NWT price. The Initiating Participant would be allocated a number of

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[22]   The Initiating Participant shall receive additional allocation only if contracts remain after any allocation pursuant to proposed BX Chapter VI, Section 9(ii)(E)(3) through (5).

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contracts equal to the aggregate size of all other quotes, orders, and PAN responses at each price point, except that the Initiating Participant would be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest receives an allocation. In the case of an Initiating Order with a NWT price at the market, the Initiating Participant would be allocated a number of contracts equal to the aggregate size of all other quotes, orders, and PAN responses at all price points, except that the Initiating Participant would be entitled to receive up to 40% or 50% of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest receives an allocation.[23]

After Public Customers and the Initiating Participant receive their allocations, BX Options Market Makers that were at a price equal to the NBBO on the opposite side of the market from the PRISM Order at the time of initiation of the PRISM Auction ("Priority Market Makers") would have priority up to their quote size in the NBBO which was present when the PRISM Auction was initiated ("Initial NBBO") at each price level at or better than such Initial NBBO.[24] Priority Market Maker quotes and PAN responses will be allocated pursuant to the

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[23]   See proposed BX Chapter VI, Section 9(ii)(E)(2)(a) through (c).

[24]   Miami International Securities Exchange, LLC ("MIAX") allocates executions resulting from Priority Public Customer interest and priority Market Maker quotes ahead of other interest. MIAX's system may designate Market Maker quotes as either priority quotes or non-priority quotes in accordance with the provisions in MIAX Rule 517(b). BX is prioritizing Priority Market Maker allocations in the proposed BX PRISM Auction in a similar manner, ahead of other non- Public Customer interest.

Size Pro-Rata algorithm set forth in BX Chapter VI, Section 10(1)(B).[25] Priority Market Maker

status is valid only for the duration of the particular PRISM auction.

Next, Non-Priority Market Makers, as well as Priority Market Maker PRISM Auction

interest which exceeded the Priority Market Maker's size in the Initial NBBO, would have

priority at each price level at or better than the Initial NBBO after Public Customers, the

Initiating Participant and Priority Market Makers have received allocations. Non-Priority Market

Maker and such excess Priority Market Maker interest will be allocated pursuant to the Size Pro-

Rata algorithm set forth in BX Chapter VI, Section 10(1)(B).[26]

Finally, all other interest will receive an allocation after the interest discussed above has

been satisfied. Such interest will be allocated pursuant to the Size Pro-Rata algorithm set forth in

BX Chapter VI, Section 10(1)(B).[27]

2. Order Allocation – Price/Time

At the conclusion of the Auction, for option classes governed under BX's Price/Time

execution algorithm, the PRISM Order will be allocated at the best price(s), pursuant to the

priority set forth in proposed Chapter VI, Section 9(ii)(F)(1) through (4).[28] First, Public

Customer orders would have time priority at each price level. Next, the Initiating Participant

would receive an allocation after Public Customer orders.[29]

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[25] See proposed BX Chapter VI, Section 9(ii)(E)(3).

[26] See proposed BX Chapter VI, Section 9(ii)(E)(4).

[27] See proposed BX Chapter VI, Section 9(ii)(E)(5).

[28] See Notice, supra note 3, at 54607-54610, for examples illustrating trade allocations under the Price/Time execution algorithm.

[29] The Initiating Participant shall receive additional allocation only if contracts remain after any allocation pursuant to proposed BX Chapter VI, Section 9(ii)(F)(3) and (4).

If the Initiating Participant selected the single stop price option, PRISM executions will occur first at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, the Initiating Participant may be allocated up to 50% of the contracts executed at such price.

If the Initiating Participant selected the auto-match option, the Initiating Participant would be allocated a number of contracts equal to the aggregate size of all other quotes, orders, and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant would be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price), after Public Customer interest has been satisfied but before remaining interest receives an allocation.

If the Initiating Participant selected the "stop and NWT" option, contracts would be allocated as follows: (i) first to quotes, orders, and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to proposed Chapter VI, Section 9(ii)(F)(3) and (4), at each price point; and (ii) next, to quotes, orders, and PAN responses at prices at the Initiating Participant's NWT price and better than the Initiating Participant's stop price, beginning with the NWT price. The Initiating Participant would be allocated a number of contracts equal to the aggregate size of all other quotes, orders, and PAN responses at each price point, except that the Initiating Participant would be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN

response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest receives an allocation. In the case of an Initiating Order with a NWT price at the market, the Initiating Participant would be allocated a number of contracts equal to the aggregate size of all other quotes, orders, and PAN responses at all price points, except that the Initiating Participant would be entitled to receive up to 40% multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest receives an allocation.

After Public Customers and the Initiating Participant receive their allocations, Priority Market Makers that were at a price equal to the NBBO on the opposite side of the market from the PRISM Order at the time of initiation of PRISM Auction would have priority up to their quote size in the Initial NBBO at each price level better than the Initial NBBO. Priority Market Maker interest at prices better than the Initial NBBO will be allocated pursuant to the Size Pro-Rata algorithm set forth in BX Chapter VI, Section 10(1)(B). Priority Market Maker interest at a price equal to or inferior to the Initial NBBO will not have priority over other participants and will be allocated pursuant to the Price/Time algorithm set forth in BX Chapter VI, Section 10(1)(A).[30]

Finally, all other interest will receive an allocation, after the interest discussed above has been satisfied. Such interest will be allocated pursuant to the Price/Time algorithm set forth in BX Chapter VI, Section 10(1)(A).[31]

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[30]   See proposed BX Chapter VI, Section 9(ii)(F)(3).

[31]   See proposed BX Chapter VI, Section 9(ii)(F)(4).

D.   Crossing Agency Orders

The Exchange also proposes, in lieu of the PRISM Auction procedures set forth in proposed Chapter VI, Section 9(i)-(ii), to allow an Initiating Participant to enter a PRISM Order for the account of a Public Customer paired with an order for the account of another Public Customer, and such paired orders will be automatically executed without a PRISM Auction, provided there is not currently an Auction in progress in the same series, in which case the paired orders would be cancelled.[32] In its proposal, the Exchange notes that it would be a violation of BX Chapter VII, Section 12 for a Participant to circumvent Chapter VII, Section 12 by providing an opportunity for (i) a Public Customer affiliated with the Participant, or (ii) a Public Customer with whom the Participant has an arrangement that allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PRISM Public Customer-to-Public Customer immediate crosses.[33]

E.   Pilot Program Information to the Commission

Subject to a pilot program expiring July 18, 2016,[34] there will be no minimum size requirement for orders to be eligible for the Auction. The Exchange also has proposed two additional components of its rules on a pilot basis, expiring on July 18, 2016: (i) the early conclusion of the PRISM Auction; and (ii) an unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the

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[32]   See discussion infra Section VI, Amendment No. 2. As noted in proposed BX Chapter VI, Section 9(ii), only one Auction may be conducted at a time in any given series.

[33]   See Notice, supra note 3, at 54606. See also proposed BX Chapter VI, Section 9(vi)(a).

[34]   See proposed BX Chapter VI, Section 9(viii).

Auction.[35] During this pilot period, the Exchange represents that it periodically will submit

certain data, as requested by the Commission staff, to provide supporting evidence that, among

other things, there is meaningful competition in PRISM Auctions for all size orders, there are

opportunities for significant price improvement for orders executed through PRISM, and that

there is an active and liquid market functioning on the Exchange outside of the Auction

mechanism.[36] The Exchange further noted that it would seek to request confidential treatment

for any raw data that it submits to the Commission.[37]

The Exchange represented that it will provide the following additional information on a

monthly basis:

(i) The number of contracts (of orders of 50 contracts or greater) entered into the

PRISM;

(ii) The number of contracts (of orders of fewer than 50 contracts) entered into the

PRISM;

(iii)The number of orders of 50 contracts or greater entered into the PRISM; and

(iv)The number of orders of fewer than 50 contracts entered into the PRISM.

III.   Amendment No. 2

In Amendment No. 2, the Exchange proposes to revise its proposal to make

certain clarifications and representations relating to the use of Price Improving and Post-

Only Orders and to make other clarifying revisions to the rule text.

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[35]   See proposed BX Chapter VI, Section 9(ii)(B)(2) through (4) (governing the early
conclusion of a PRISM auction) and proposed BX Chapter VI, Section 9(ii)(D)
(governing the treatment of unrelated orders on the opposite side of the market from the
PRISM Order).

[36]   See Notice, supra note 3, at 54606-07.

[37]   See id. See also proposed BX Chapter VI, Section 6(vii).

The Exchange proposes to amend its rule text to delete the term "displayed" which modifies "BX BBO" in proposed Chapter VI, Section 9(i)(B) and the term "or better than" in proposed Chapter VI, Section 9(ii)(E)(3) because these references represent the impact of repricing resulting from Price Improving and Post-Only Orders. The Exchange represents that it will file a rule change separately with the Commission to remove Price Improving and Post-Only Order types from its Rules.[38] The Exchange also represents that it will not commence offering BX PRISM until such time as it has an effective and operative rule in place from the Commission to remove Price Improving and Post-Only Orders and removes the ability to submit Price Improving and Post-Only Orders into the Auction.[39] In the event the Exchange determines in the future to allow the entry of any type of non-displayed order types, the Exchange represents that it will file a proposed rule change pursuant to Section 19(b)(2) under the Exchange Act with the Commission to seek approval for such rule change.[40] As there will be no longer be any repricing order types on BX due to BX's elimination of Price Improving and Post Only Orders, the Exchange proposes to delete these terms from the rule text. The Exchange also proposes to delete the term "displayed" in other parts of the rule where it modifies the term "NBBO," "quote size," or "size" because the Exchange believes the modifier "displayed" is redundant and unnecessary and wishes to avoid any inference that the NBBO or quote size may be non-displayed, which it represents is not the case.[41]

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[38]   See Amendment No. 2, supra note 5, at 3.

[39]   See id.

[40]   See id. at 3-4.

[41]   See id. at 5. The Exchange states that the term "displayed" prior to NBBO is simply redundant as the NBBO is always displayed and therefore unnecessary. The term "displayed" before the terms "quote size" and "size" is not necessary as such references

The Exchange also proposes to replace certain uses of the term "rejected" in the rule text with the term "immediately cancelled." In Amendment No. 2, BX notes that non-eligible and non-compliant orders that are submitted into PRISM will be immediately cancelled when those orders are reviewed for compliance with Exchange Rules. These orders will not technically be rejected as there will be time, however miniscule, between the submission of the order and the cancellation of the order. The Exchange believes this non-substantive change adds more clarity to the rule text. The Exchange also proposes to amend the rule text to provide more specificity concerning the allocation guarantee to which an Initiating Participant is entitled. While the current rule text clearly states that the Initiating Participant may receive up to 40% if there is multiple competing interest or 50% of there is one competing quote, order, or response, the amendments add this detail to other places in the rule where the 40% and 50% guarantees are referenced to consistently make clear the conditions under which they apply. The Exchange believes this non-substantive change adds more clarity to the rule text.

Further, the Exchange proposes to amend the rule text at proposed Chapter VI, Section 9(ii)(E)(3) to delete the term "orders." This amendment will correct the reference to the types of interest that would be attributed to a Priority Market Maker. While quotes and PAN responses will be allocated according to Priority Marker Maker status, orders will be accepted but will not receive Priority Market Maker status. Therefore, BX proposes to delete the term "orders" to make clear which interest shall be included for calculation within the allocation.

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may create an inference that the quote size may be non-displayed in certain circumstances, which is not the case. Additionally, the term "displayed" is not utilized in the Phlx PIXL rule text (Phlx Rule 1080(n)), which auction is similar to PRISM.

In addition, the Exchange proposes to replace the terms "orders" or "participants" in certain places within the rule text that reference the Initiating Participant's guarantee with the terms "quote(s), order(s) or PAN response(s)," which more fully and explicitly represent the types of interest that is considered when PRISM allocates 40% or 50% of the PRISM Order to the Initiating Participant. The Exchange believes these amendments are non-substantive changes that add more clarity to the rule text.

The Exchange also proposes to amend the rule text at proposed Chapter VI, Section 9(vi) to clarify that a Participant cannot submit a Public Customer-to-Public customer paired order when there is a PRISM Auction in progress in the same series. Any attempt to do so will result in the Exchange canceling the Public Customer-to-Public customer paired order. In its original notice, the Exchange noted that only one Auction may be conducted at a time in any given series,[42] and this additional text just makes clear that the general prohibition also applies when a Participant seeks to submit a Public Customer-to-Public customer paired order. The remaining proposed changes in Amendment No. 2 correct a cross-reference and some typographical errors.

IV.   Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b) of the Act.[43] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[44]

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[42]   See Notice, supra note 3, at 54602.

[43]   15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

[44]   15 U.S.C. 78f(b)(5).

which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect customers, issuers, brokers and dealers. The Commission believes that the Exchange's proposal to establish the PRISM Auction may increase competition among those options exchanges that offer similar price improvement mechanisms. The Commission further believes that allowing BX members to enter orders into the PRISM Auction could provide additional opportunities for such orders to receive price improvement over the NBBO. The Commission also believes that the BX's proposal to give priority to a Priority Market Maker who is quoting at the NBBO before an Auction is initiated may provide an incentive for BX Market Makers to publicly display their best quotes with size on the Exchange, which would benefit all options market participants.

BX's proposed PRISM Auction is based in large part on Phlx's PIXL, and also is similar to existing functionality at other options exchanges, except that, as discussed further below, it adds a new type of allocation for Priority Market Makers.[45] All options traded on BX are eligible for the PRISM Auction, and PRISM Orders are given the opportunity for price improvement over the NBBO by being exposed to members during the PRISM Auction. In addition, BX's proposal protects resting interest on its limit order book as the Initiating

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[45] See, e.g., Phlx Rule 1080(n) (Phlx's PIXL), Chicago Board Options Exchange ("CBOE") Rule 6.74A (CBOE's Automated Improvement Mechanism ("AIM") auction), and MIAX Rule 515A (MIAX's Price Improvement Mechanism ("PRIME") auction).

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Participant's stop price[46] must be at least one minimum trading increment better than any booked order's limit price on the same side of the market as the PRISM Order, when the PRISM Order is for a Public Customer. A PRISM Order for any entity other than a Public Customer must be stopped at a price better than the same side of the BX BBO even if there is no resting limit order on the book.

BX will not accept PRISM Orders during certain times, including during the final two seconds of the regular trading session, as well as at or before the opening of trading. BX also would cancel any PRISM Order that does not meet the Auction eligibility requirements specified in the proposed rule. Further, once a PRISM Auction has commenced, it cannot be cancelled.

When the BX receives an eligible PRISM Order for submission to the PRISM Auction, it will broadly announce the Auction by sending a PAN over the BX Depth feed and the Exchange's Specialized Quote Feed detailing the option, side, and size.[47] This message is designed to help attract competitive responses to a PRISM Auction. The PRISM rules also permit any person or entity to submit responses to the PAN on behalf of all types of interest.[48] The Commission believes that these requirements provide the opportunity for a PRISM Order to

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[46]   The Initiating Participant may forfeit priority and trade allocation privileges by designating the Initiating Order as Surrender, in which case the Initiating Participant would trade only if there were not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price. The Commission notes that this feature may encourage use of the PRISM Auction to provide certain orders with an opportunity for price improvement that such orders may not otherwise receive.

[47]   According to the Exchange, SQF is available to Market Makers at no cost. The Depth Feed is available to all other market participants that pay to subscribe to the service to receive broadcast information regarding auctions.

[48]   Cf. CBOE Rule 6.74A(b)(1)(D)-(E) (only CBOE Market Makers with an appointment in the relevant option class, and CBOE Members acting as agent for orders resting at the top of the CBOE book opposite the Agency Order, may submit responses to the AIM RFR).

be exposed in an auction designed to attract competitive responses and facilitate price improvement, and thus may result in ultimately better prices for the PRISM Order to the extent the PAN is successful in attracting competitive responses.

All PRISM Auctions will last for a period for a predefined time of no less than 100 milliseconds and no more than 1 second as determined by the Exchange and announced on the Nasdaq Trader website. As the Exchange discussed in its proposal, in May 2014, Phlx surveyed its Market Maker members as to the timeframe within which these firms could respond to an auction with a duration time ranging from less than 50 milliseconds to more than 1 second.[49] Of the 20 Market Maker firms[50] that responded to the question, 100% indicated that their firm could respond to auctions with a duration time of at least 50 milliseconds.[51] Based on BX's statements, the Commission believes that proposed duration of the PRISM Auction could facilitate the prompt execution of orders in the PRISM auction, while providing market participants with an opportunity to compete for exposed bids and offers. The Commission notes that other exchanges' price improvement mechanisms provide for auction response periods within the range of the response duration proposed by BX.[52]

At the conclusion of a PRISM Auction, Public Customer orders have first priority to trade against the PRISM Order. After Public Customer orders receive their allocation, the Initiating Participant next may be allocated a limited percentage of the PRISM Order, not to

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[49] See Notice, supra note 3, at 54602.

[50] The Exchange represents that 90% of the BX market maker firms participated in the survey (i.e., 90% of BX market maker firms were also market makers on Phlx who participated in the Phlx survey). See Notice, supra note 3, at 5460203, n. 19.

[51] See Notice, supra note 3, at 54602-03, n. 19 - 20 and accompanying text.

[52] See International Securities Exchange Rule 723(c)(5) (auction period of 500 milliseconds), CBOE Rule 6.74A(b)(1)(C) (auction period of 1 second), Boston Options Exchange Rule 7150(f)(1) (auction period of 100 milliseconds).

exceed 40% of the contracts at the applicable final price point if competing quotes, orders or

PAN responses have contracts available for execution (however, if only one other competing

quote, order or PAN response matches the Initiating Participant's submission at the best price,

then the Initiating Participant may be allocated up to 50% of the PRISM Order). After the

Initiating Participant's primary allocation, quotes and PAN responses from Priority Market

Makers have next priority. Thereafter, Non-Priority Market Makers, as well as Priority Market

Maker interest which exceeded their displayed size in the Initial NBBO, would have the next

priority at each price level at or better than the Initial NBBO. Finally, all other interest would

receive an allocation if contracts remained. The Commission believes that the BX PRISM's

proposed matching algorithm is sufficiently clear regarding how orders are to be allocated in the

PRISM Auction and is designed in a manner that should facilitate a competitive auction process.

As noted above, the proposed BX rules grant a BX Market Maker "priority" status for the

duration of an Auction when the Market Maker is quoting at the NBBO at the time the PRISM

Auction was initiated, up to the size of its quote. The Commission believes that this provision is

designed to encourage BX Market Makers to quote aggressively with additional size outside of

the PRISM Auction and, therefore, may enhance competition and liquidity on the BX market.

The Commission notes that another exchange, the Miami International Securities Exchange,

offers a similar "priority quote" feature in its general matching system,[53] and also provides for

enhanced priority for "priority quotes" in its PRIME price improvement auction in a

substantially similar manner as to what BX proposes for PRISM.[54]

The Exchange has represented its commitment to submit certain data on PRISM Auctions

at the request of Commission staff. The Commission expects such data to be used, by both the

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[53] See MIAX Rule 517(b)(1)(i).

[54] See MIAX Rule 515A(a)(2)(iii)(C).

Exchange and the Commission staff, to assess the performance of PRISM Auction, including, among other things, to study whether there is meaningful competition for all size orders with the PRISM, the degree of price improvement for all orders executed through the PRISM, and whether there is an active and liquid market functioning on the Exchange outside of the PRISM. The data provided will enable the Commission, as well as the Exchange itself, to evaluate the PRISM Auction to determine its performance and possible impact on BX and options market structure in general and the degree to which it is beneficial to customers and to the options market as a whole.

V.   Section 11(a) of the Act

Section 11(a)(1) of the Act[55] prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or its associated person exercises investment discretion (collectively, "covered accounts") unless an exception applies. Rule 11a2-2(T) under the Act,[56] known as the "effect versus execute" rule, provides exchange members with an exemption from the Section 11(a)(1) prohibition. Rule 11a2-2(T) permits an exchange member, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute transactions on the exchange. To comply with Rule 11a2-2(T)'s conditions, a member: (i) must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[57] (iii) may not be affiliated with the executing member; and (iv) with respect to an account over which the

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[55]   15 U.S.C. 78k(a)(1).

[56]   17 CFR 240.11a2-2(T).

[57]   This prohibition also applies to associated persons. The member may, however, participate in clearing and settling the transaction.

member or an associated person has investment discretion, neither the member nor its associated

person may retain any compensation in connection with effecting the transaction except as

provided in the Rule. For the reasons set forth below, the Commission believes that Exchange

members entering orders into the PRISM Auction would satisfy the requirements of Rule 11a2-

2(T).

The Rule's first condition is that orders for covered accounts be transmitted from off the

exchange floor. In the context of automated trading systems, the Commission has found that the

off-floor transmission requirement is met if a covered account order is transmitted from a remote

location directly to an exchange's floor by electronic means.[58] BX has represented that the BX

trading system and the proposed PRISM Auction receive all orders electronically through remote

terminals or computer-to-computer interfaces.[59] The Exchange also represents that orders for

covered accounts from Participants will be transmitted from a remote location directly to the

proposed PRISM mechanism by electronic means. Because no Exchange members may submit

orders into the PRISM Auction from on the floor of the Exchange, the Commission believes that

the PRISM Auction satisfies the off-floor transmission requirement.

Second, the Rule requires that the member and any associated person not participate in

the execution of its order after the order has been transmitted. The Exchange represents that at

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[58]   See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157
         (February 1, 2010) (SR-BATS-2009-031) (approving BATS options trading); 59154
         (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48) (approving
         equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521
         (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving
         NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File
         No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66
         FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange);
         29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-
         90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979),
         44 FR 6084 (January 31, 1979) ("1979 Release").

[59]   See Notice, supra note 3, at 54612. See also Amendment No. 2, supra note 5.

no time following the submission of an order is a Participant able to acquire control or influence over the result or timing of the order's execution.[60] According to the Exchange, the execution of an order is determined by what other orders are present in the PRISM and the priority of those orders.[61] Accordingly, the Commission believes that a member does not participate in the execution of an order submitted to the PRISM mechanism.

Third, Rule 11a2-2(T) requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that this requirement is satisfied when automated exchange facilities, such as the PRISM mechanism, are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.[62] BX

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[60]   See Notice, supra note 3, at 54612. See also Amendment No. 2, supra note 5 (also representing, among other things, that: 1) no Participant, including the Initiating Participant, will see a PAN response submitted into PRISM and therefore and will not be able to influence or guide the execution of their PRISM Orders, 2) the Surrender feature will not permit a Participant to have any control over an order, and that the election to Surrender an order is available prior to the submission of the order, will not be broadcast and further, that the Surrender option may not be modified by the market participant during the auction).

[61]   See Notice, supra note 3, at 54612. See also Amendment No. 2, supra note 5. The Exchange notes that a Member may cancel or modify the order, or modify the instructions for executing the order, but that such instructions would be transmitted from off the floor of the Exchange. The Commission has stated that the non-participation requirement is satisfied under such circumstances so long as such modifications or cancellations are also transmitted from off the floor. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978) ("1978 Release") (stating that the "non-participation requirement does not prevent initiating members from canceling or modifying orders (or the instructions pursuant to which the initiating member wishes orders to be executed) after the orders have been transmitted to the executing member, provided that any such instructions are also transmitted from off the floor").

[62]   In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to

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represents that the PRISM is designed so that no Member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the mechanism.[63] Based on the Exchange's representation, the Commission believes that the PRISM mechanism satisfies this requirement.

Fourth, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.[64] BX represents that Members relying on Rule 11a2-2(T) for transactions effected through the PRISM must comply with this condition of the Rule and that the Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.[65]

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the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release, supra note 58.

[63]   See Notice, supra note 3, at 54612. See also Amendment No. 2, supra note 5.

[64]   In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member or any associated person thereof in connection with effecting transactions for the account during the period covered by the statement. See 17 CFR 240.11a2-2(T)(d). See also 1978 Release, supra note 61 (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

[65]   See Notice, supra note 3, at 54612. See also Amendment No. 2, supra note 5.

VI.   Accelerated Approval of Proposal, as Modified by Amendment No. 2

The Commission finds good cause, pursuant to Section 19(b)(2) of the Exchange Act, to approve the proposal, as modified by Amendment Nos. 1 and 2, prior to the 30th day after publication of Amendment No. 2 in the Federal Register. In Amendment No. 2, BX revised the original proposal, which had been previously amended by Amendment No. 1 before it was published in the Federal Register, to make the changes discussed in detail above. Notably, in Amendment No. 2, BX represents that Price Improving and Post-Only Order types will be removed from its Rules before BX implements the PRISM Auction mechanism. BX also made changes to clarify and add detail to the rule text. The Commission believes that Amendment No. 2 does not raise any novel regulatory issues and instead provides additional clarity in the rule text, which is consistent with BX's original proposal, as modified by Amendment No. 1, and supports BX's analysis of how its proposal is consistent with the Act, thus facilitating the Commission's ability to make the findings set forth above to approve the proposal. Accordingly, the Commission finds that good cause exists to approve the proposal, as modified by Amendment No. 2, on an accelerated basis.

VII.   Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 2 is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BX-2015-032 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-2015-032. 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 website (http://www.sec.gov/rules/sro.shtml).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BX-2015-032 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

VIII. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[66] that the

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[66] 15 U.S.C. 78s(b)(2).

proposed rule change (SR-BX-2015-032), as modified by Amendment Nos. 1 and 2, be and hereby is approved on an accelerated basis, except that BX Chapter VI, Section 9(ii)(B)(2)-(3), Section 9(ii)(D), and Section 9(vii) are approved on a pilot basis until July 18, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[67]

Robert W. Errett
Deputy Secretary

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[67]   17 CFR 200.30-3(a)(12).