

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-92409; File No. SR-BX-2021-030)

July 14, 2021

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Equity 4, Rule 4703

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 7, 2021, Nasdaq BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“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 Equity 4, Rule 4703,³ in light of planned changes to the System, as described further 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ References herein to BX Rules in the 4000 Series shall mean Rules in BX Equity 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

Presently, the Exchange is making functional enhancements and improvements to specific Order Attributes⁴ that are currently only available via the RASH Order entry protocol.⁵ Specifically, the Exchange will be upgrading the logic and implementation of these Order Types and Order Attributes so that the features are more streamlined across the Exchange Systems and order entry protocols, and will enable the Exchange to process these Orders more quickly and efficiently. Additionally, this System upgrade will pave the way for the Exchange to enhance the OUCH Order entry protocol⁶ so that Participants may enter such Order Types and Order Attributes

⁴ An “Order Attribute” is a set of variable instructions that may be associated with an Order to further define how it will behave with respect to pricing, execution, and/or posting to the Exchange Book when submitted to the System. See Equity 1, Section 1(a)(11).

⁵ The RASH (Routing and Special Handling) Order entry protocol is a proprietary protocol that allows members to enter Orders, cancel existing Orders and receive executions. RASH allows participants to use advanced functionality, including discretion, random reserve, pegging and routing. See http://nasdaqtrader.com/content/technicalsupport/specifications/TradingProducts/rash_sb.pdf.

⁶ The OUCH Order entry protocol is a proprietary protocol that allows subscribers to quickly enter orders into the System and receive executions. OUCH accepts limit Orders from members, and if there are matching Orders, they will execute. Non-matching Orders are added to the Limit Order Book, a database of available limit Orders, where they are matched in price-time priority. OUCH only provides a method for members to send Orders and receive status updates on those Orders. See <https://www.nasdaqtrader.com/Trader.aspx?id=OUCH>.

via OUCH, in addition to the RASH Order entry protocols.⁷ The Exchange plans to implement its enhancement of the OUCH protocol sequentially, by Order Type and Order Attribute.⁸

To support and prepare for these upgrades and enhancements, the Exchange recently submitted two rule filings to the Commission that amended its rules pertaining to, among other things, Market Maker Peg Orders and Orders with Reserve Size.⁹ The Exchange now proposes to further amend its Rules governing Order Attributes, at Rule 4703. In particular, the Exchange proposes to adjust the current functionality of the Pegging¹⁰ and Trade Now Attributes,¹¹ as described below, so that they align with how the System, once upgraded, will handle these Order Attributes going forward.

Changes to Pegging Order Attribute

First, the Exchange proposes to amend Rule 4703(d), which governs the Pegging Order Attribute. The Exchange offers three types of Pegging: Primary Pegging, Market Pegging, and

⁷ The Exchange designed the OUCH protocol to enable members to enter Orders quickly into the System. As such, the Exchange developed OUCH with simplicity in mind, and it therefore lacks more complex order handling capabilities. By contrast, the Exchange specifically designed RASH to support advanced functionality, including discretion, random reserve, pegging and routing. Once the System upgrades occur, then the Exchange intends to propose further changes to its Rules to permit participants to utilize OUCH, in addition to RASH, to enter order types that require advanced functionality.

⁸ The Exchange notes that its sister exchange, The Nasdaq Stock Market, LLC (“Nasdaq”), has already filed similar proposed rule changes with the Commission. See Securities Exchange Act Release No. 34-92180 (June 15, 2021), 86 FR 33420 (June 24, 2021) (SR-NASDAQ-2021-044).

⁹ See Securities Exchange Act Release No. 34-91334 (March 16, 2021), 86 FR 15277 (March 22, 2021) (SR-BX-2021-005); Securities Exchange Act Release No. 34-90607 (December 8, 2020), 85 FR 80842 (December 14, 2020) (SR-BX-2020-034).

¹⁰ See Rule 4703(d).

¹¹ See Rule 4703(l).

Midpoint Pegging.¹² The Rule presently provides that if, at the time of entry, there is no price to which a Pegged Order can be pegged, the Order will be rejected, provided, however, that a Displayed Order that has Market Pegging, or an Order with a Non-Display Attribute that has Primary Pegging or Market Pegging, will be accepted at its limit price. The Exchange proposes to replace this text by stating that if, at the time of entry, there is no price to which a Pegged Order, that has not been assigned a Routing Order Attribute, can be pegged or pegging would lead to a price at which the Order cannot be posted, then the Order will not be immediately available on the Exchange Book and will be entered once there is a permissible price.¹³ The Exchange proposes this change so as to enhance the manner in which the Exchange presently handles Pegged Orders in this scenario. Rather than reject such Orders outright, and require customers to continuously reenter the Orders thereafter until a pegging price emerges, which may cost them queue priority, the Exchange believes that it would be more efficient and customer-friendly to simply hold a Pegged Order until a permissible pegging price emerges.¹⁴

¹² See Rule 4703(d) (defining “Primary Pegging” as pegging with reference to the inside quotation on the same side of the market, “Market Pegging” as pegging with reference to the inside quotation on the opposite side of the market, and “Midpoint Pegging” as pegging with reference to the midpoint between the inside bid and the inside offer).

¹³ This change is applicable to Primary, Market and Midpoint Pegging Orders entered via RASH/FIX; OUCH/FLITE Midpoint Pegging behavior is not affected by this change. The Exchange also proposes to amend existing language in this provision which states that “if the Inside Bid and Inside Offer are crossed or if there is no Inside Bid and/or Inside Offer, the Order will be cancelled or rejected.” The proposed amendment would specify that this language applies only to Orders with Midpoint Pegging entered through OUCH or FLITE and also replace the phrase “will be cancelled or rejected” with “will not be accepted” (to render the text consistent with the analogous Nasdaq rule). The proposed changes to pegged orders entered through RASH or FIX will allow the Exchange to handle the Order more consistent with the customer intended instruction, and are necessary to facilitate forthcoming System enhancements.

¹⁴ Meanwhile, the Exchange proposes to amend the Rule to state that if a Pegged Order is assigned a Routing Order Attribute, and a permissible pegging price is not available upon entry, then the Order will continue to be rejected. The Exchange proposes to retain existing practice for Pegged Orders with Routing Order Attributes because the Exchange

A similar rationale applies to the Exchange's proposal to cease accepting certain Market or Primary Pegged Orders at their limit prices if no pegging price is available. Because participants presumably prefer for their orders to post at the pegging price, the Exchange believes that participants would prefer for the Exchange to hold such orders until a permissible pegging price emerges, rather than post the orders at their limit prices.^{15, 16}

The Exchange proposes similar changes to the paragraph of Rule 4703(d) that applies to Pegged Orders entered through RASH or FIX that posted to the Exchange Book. The text presently provides that if the price to which an Order is pegged is not available, the Order will be rejected. The Exchange proposes instead to state that if the price to which an Order is pegged becomes unavailable or pegging would lead to a price at which the Order cannot be posted,¹⁷ then the

is not yet prepared to make similar changes to such Orders, although it contemplates doing so in the near future.

¹⁵ When a Pegged Order lacks a pegging price or a permissible pegging price, the System will not wait indefinitely for a pegging price or a permissible pegging price to become available. Instead, the System will cancel the Order if no permissible pegging price becomes available within one second after Order entry or after the Order was removed due to the lack of a permissible pegging price and no longer available on the Book. The Exchange may, in the exercise of its discretion, modify the length of this maximum time period by posting advance notice of the applicable new time period on its website.

¹⁶ In this paragraph of Rule 4703(d), the Exchange again proposes to state that it will continue to reject a Pegged Order entered through RASH or FIX when a permissible pegging price is unavailable, if the Pegged Order is assigned a Routing Order Attribute. The Exchange will continue to accept certain Market and Primary Pegged Orders at their limit price where they have Routing Order Attributes. The Exchange proposes to retain existing practice for Pegged Orders with Routing Order Attributes because the Exchange is not yet prepared to make similar changes to such Orders, although it contemplates doing so in the near future.

¹⁷ An example of a scenario where pegging would lead to a price at which an Order cannot be posted is as follows. Assume that the NBBO is \$0.0002 x \$0.0003. A Primary Pegged Order to buy is entered with a passive offset amount of \$0.0003. This would result in the Order being made unavailable by the Exchange as -\$0.0001 is not a permissible price. Currently, the Exchange accepts such Orders at its limit price, and will post the Orders to the Exchange Book in accordance with the parameters that apply to the underlying Order Type.

Exchange will remove the Order from the Exchange Book and re-enter it once there is a permissible price. Again, the Exchange proposes this change to enhance and make the System more efficient by providing for the Exchange to re-post the Pegged Orders rather than rejecting them when there is no permissible pegging price and requiring participants to re-enter them once a valid price becomes available.¹⁸ The Exchange notes that the proposed change will not apply to Pegged Orders with Routing Attributes assigned to them; the existing Rule functionality will continue to apply to those Orders.

Rule 4703(d) also subjects Pegging Orders to collars, meaning that any portion of a Pegging Order that would¹⁹ execute, either on the Exchange or when routed to another market center, at a price of more than \$0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled. Although the Rule states that it applies this collar to

¹⁸ The Exchange proposes to apply a similar time limitation to the holding period prescribed above. Similarly, the Exchange proposes to add that for an Order with Midpoint Pegging, if the Inside Bid and Inside Offer become crossed, or there is no Inside Bid or Inside Offer, the System will cancel the Order if no permissible price becomes available within one second after the Order was removed and no longer available on the Exchange Book (the Exchange may, in the exercise of its discretion modify the length of this one second time period by posting advance notice of the applicable time period on its website). For an Order with Midpoint Pegging with a Routing Attribute, the new one second time period will be applicable. The Exchange notes that it had inadvertently omitted from the existing Rule portions of this new proposed language that addresses the handling of Midpoint Pegged Orders if the Inside Bid or Inside Offer become crossed or if there is no Inside Bid or Inside Offer, even though this provision was intended to mirror a corresponding rule 4703(d) in the Nasdaq Rulebook. The proposal corrects this omission.

¹⁹ Additionally, the Exchange proposes to replace the word “would” with “could” in this provision, so as to clarify that collars apply in circumstances in which Pegged Orders might execute, but do not necessarily do so. An example of a circumstance in which such Orders do not execute is as follows. Assume that the NBBO is \$10.00 x \$10.01. A Market Pegged Order to buy posts at \$10.01. The NBBO then updates to \$10.00 x \$11.00. Because re-pricing and posting the Market Pegged Order would result in the Order being available on the Book and executable at \$11.00 (outside of the collars), the Order will be canceled.

Orders with Primary and Market Pegging, the Exchange has always intended for the collar to also apply to Orders with Midpoint Pegging, and in practice, it does so. The failure of the Rule to reflect the application of the collar to Midpoint Pegged Orders was an unintended omission. The Exchange now proposes to revise Rule 4703(d) to correct this omission.

Changes to the Trade Now Order Attribute

Additionally, the Exchange proposes to amend its rules governing the Trade Now Attribute, at Rule 4703(l). Pursuant to Rule 4703(l), Trade Now is an Order Attribute that allows a resting Order that becomes locked by an incoming Displayed Order to execute against the available size of a contra-side locking Order as a liquidity taker.

The Exchange proposes to amend Trade Now by streamlining and simplifying the instructions that participants must enter to address the handling of their orders in various locking or crossing scenarios.²⁰ Specifically, rather than require a participant to manually send a Trade Now instruction whenever an Order entered through OUCH or FLITE becomes locked, the proposed amended Rule will allow for a participant to enable Trade Now functionality on a port-level basis for all Order entry protocols and for all Order Types that support Trade Now, as well as on an order-by-order basis, for the Non-Displayed Order Type, when entered through OUCH or FLITE.²¹ For Orders entered through RASH or FIX, Trade Now will be available on an order-by-order basis for

²⁰ The Exchange notes that the Rule presently does not refer to crossing scenarios. The Exchange proposes to add such references for completeness and consistency with the corresponding rules of Nasdaq and Nasdaq PHLX. An example of a crossing scenario is as follows. A non-displayed Order to buy rests on the Book at \$0.9995. Thereafter, a Post Only Order to sell is entered at \$0.9994, which would post on the Book and display at \$0.0014 [sic], thereby crossing the non-displayed Order as the price improvement requirements were not met.

²¹ This proposed change in functionality for OUCH and FLITE is enabled by the migration of Trade Now to the Exchange's matching System.

all Order Types that support Trade Now. The proposal will not extend Trade Now functionality to new Order Types.²²

The Exchange intends to implement the foregoing changes during the Third Quarter of 2021. The Exchange will issue an Equity Trader Alert at least 7 days in advance of implementing the changes.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²³ in general, and furthers the objectives of Section 6(b)(5) of the Act,²⁴ 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 believes that its proposed amendments to the Pegging Order Attribute, at Rule 4703(d), are consistent with the Act. The proposals to eliminate the functionality that provides for the System to reject certain Pegged Orders that lack a permissible pegging price, or to post the Orders at their limit price, are consistent with the Act because they eliminate unwarranted inefficiencies that arise when participants must repeatedly re-enter rejected Pegged

²² The Exchange proposes to add language to Rule 4703(l) to state that Trade Now allows a resting Order that becomes locked “or crossed, as applicable at its non-displayed price” by the “posted price” of an incoming Displayed Order to execute against a locking or crossing Order(s) automatically. The Exchange proposes to add the phrase “or crossed, as applicable, at its non-displaced [sic] price” for completeness. It also proposes to add the phrase “posted price” for purposes of clarity. It merely communicates that the incoming Displayed Order first posts to the Exchange Book, thereby locking or crossing the resting Order at its non-displayed price.

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78f(b)(5).

Orders until a permissible price becomes available.^{25, 26} It is also consistent with the Act to maintain the existing practice in the Rule of rejecting a Pegged Order without a permissible pegging price where the Order has been assigned a Routing Attribute. The Exchange is not yet prepared to hold such Orders in the same way that it proposes to do so for Pegged Orders without Routing Attributes, although it contemplates doing so in the near future.

Moreover, the proposal to amend Rule 4703(d) to state expressly that Midpoint Pegging Orders are subject to price collars, like Orders with Primary and Market Pegging, will correct an unintended omission and ensure that the Rule is consistent with existing Exchange practice and with customer expectations. The application of these collars will prevent Pegged Orders from having prices that deviate too far away from where the security was trading when the Order was first entered.²⁷

²⁵ The Exchange notes that as part of this proposed change, if there is no Pegging Price upon entry for a Displayed Order that has Market Pegging, or an Order with a Non-Display Attribute that has Primary Pegging or Market Pegging, then it will no longer accept such Orders at their limit price. The Exchange believes that this proposed change is consistent with the Act because it better aligns with customer intentions for Pegged Orders to post at a Pegging Price. That is, the Exchange believes that participants prefer for Pegged Orders to be entered at a Pegging Price, rather than its entered limit price, even if that means that the Order must wait for a Pegging Price to become available. As discussed above, the Exchange does not propose this change for Pegged Orders with Routing Attributes.

²⁶ It is also consistent with the Act to limit the time period for which the Exchange will hold, without canceling, Pegged Orders for which there is no pegging price or permissible pegging price because the Exchange does not believe that customers would want the Exchange to hold their orders indefinitely. Moreover, holding such orders indefinitely would encumber the Exchange's System. The Exchange believes that a one second holding period for such orders is long enough to provide the above-stated efficiencies for participants, but not too long as to encumber them. However, the Exchange believes that it is reasonable to reserve discretion to alter the holding period, from time to time, should it determine that doing so better meets the needs of customers or its System resources.

²⁷ Additionally, the Exchange believes that it is consistent with the Act to replace the word "would" with "could" in this provision, because doing so would clarify that collars apply

The Exchange’s proposals to amend its rules governing the Trade Now Attribute, at Rule 4703(I), is consistent with the Act. The proposal will streamline and simplify the instructions that participants must enter to address the handling of their orders in various locking or crossing scenarios. Rather than require a participant to manually send a Trade Now instruction whenever an Order entered through OUCH or FLITE becomes locked, the proposed amended Rule will allow for a participant to enable Trade Now functionality on a port-level basis for all Order entry protocols and for all Order Types that support Trade Now, as well as on an order-by-order basis, for the Non-Displayed Order Type, when entered through OUCH and FLITE.²⁸ Furthermore, it is consistent with the Act to add language to Rule 4703(I) to state that Trade Now allows a resting Order that becomes locked “or crossed, as applicable, at its non-displayed price” by the “posted price” of an incoming Displayed Order to execute against a locking or crossing Order(s) automatically. The Exchange proposes to add the phrase “or crossed, as applicable, at its non-displayed price” for completeness. The Exchange also proposes to add the phrase “posted price” for purposes of clarity. It merely communicates that the incoming Displayed Order first posts to the Nasdaq Book, thereby locking or crossing the resting Order at its non-displayed price.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As a general principle, the proposed changes are reflective of the significant competition among exchanges and non-exchange venues for order flow. In this regard, proposed changes that facilitate

in circumstances in which Pegged Orders might execute, but do not necessarily do so. See supra, n.19.

²⁸ As noted above, for Orders entered through RASH or FIX, Trade Now will be available on an order-by-order basis for all Order Types that support Trade Now.

enhancements to the Exchange's System and order entry protocols as well as those that amend and clarify the Exchange's Rules regarding its Order Attributes, are pro-competitive because they bolster the efficiency, integrity, and overall attractiveness of the Exchange in an absolute sense and relative to its peers.

Moreover, none of the proposed changes will unduly burden intra-market competition among various Exchange participants. Participants will experience no competitive impact from its proposals to hold (up to one second), rather than reject (or accept at their limit price), Pegging Orders (other than those with Routing Attributes) in circumstances in which no permissible pegging price is available, as these proposals will merely eliminate unwarranted inefficiencies that ensue from the System requiring participants to repeatedly re-enter Pegged Orders until a price becomes available, or the System posting Pegged Orders at their limit prices, if there is no pegging price. Moreover, the proposal to amend Rule 4703(d) to state expressly that Midpoint Pegging Orders are subject to price collars, like Orders with Primary and Market Pegging, will have no competitive impact as the proposal is consistent with existing Exchange practice and with customer expectations.

The Exchange's proposals to amend its rules governing Trade Now will have no competitive impact on participants other than by rendering these Order Attributes more efficient and easier for participants to utilize.

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

No written comments were either solicited or received.

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

Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become

operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²⁹ and Rule 19b-4(f)(6) thereunder.³⁰

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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. Please include File Number SR-BX-2021-030 on the subject line.

Paper comments:

²⁹ 15 U.S.C. 78s(b)(3)(A).

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

- 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-2021-030. 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 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-2021-030, 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.³¹

J. Matthew DeLesDernier
Assistant Secretary

³¹ 17 CFR 200.30-3(a)(12).