

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-92470; File No. SR-BX-2021-031)

July 22, 2021

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Options 2 at Section 4, Obligations of Market Makers and Lead Market Makers and Section 5, Market Maker Quotations

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 July 19, 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 Options 2 at Section 4, Obligations of Market Makers and Lead Market Makers, and Section 5, Market Maker Quotations. The Exchange also proposes a technical amendment to Options 1, Section 1, Definitions.

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

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

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

proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend BX Options 2 at Section 4, Obligations of Market Makers and Lead Market Makers, and Section 5, Market Maker Quotations. Currently, the Exchange requires Market Makers<sup>3</sup> and Lead Market Makers<sup>4</sup> to enter bids and offers for the options to which they are registered, except in an assigned options series listed intra-day on the Exchange.<sup>5</sup> Quotations must meet the legal quote width requirements specified in Options 2, Section 4(f)(4) and Options 2, Section 5(d)(2).<sup>6</sup> On a daily basis, a Market Maker must make markets consistent with the applicable quoting requirements. Market Makers associated with the same Options Participant<sup>7</sup> are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for

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<sup>3</sup> The term “BX Options Market Maker” or “Options Market Maker” means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Options 2 of these Rules. See Options 1, Section 1(a)(10).

<sup>4</sup> Approved BX Options Market Makers may become Lead Market Makers. Only one Lead Market Maker may be allocated to an options class. See Options 2, Section 3(A).

<sup>5</sup> Options 2, Section 4(j) and Options 2, Section 5(d)(1).

<sup>6</sup> Options 2, Section 4(f)(4) and Options 2, Section 5(d)(2) describe the required bid/ask differentials for Lead Market Makers and Market Makers, respectively.

<sup>7</sup> The term “Options Participant” or “Participant” mean a firm, or organization that is registered with the Exchange pursuant to Options 2A of these Rules for purposes of participating in options trading on BX Options as a “BX Options Order Entry Firm” or “BX Options Market Maker.” See Options 1, Section 1(a)(40).

which that Options Participant's assigned options series are open for trading.<sup>8</sup> Notwithstanding the foregoing, a Market Maker is not required to make two-sided markets pursuant to Options 2, Section 5(d)(1) in any Quarterly Option Series, any adjusted option series,<sup>9</sup> and any option series with an expiration of nine months or greater.<sup>10</sup> Lead Market Makers associated with the same Options Participant, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Option Participant's assigned options series are open for trading. Lead Market Makers are required to make two-sided markets pursuant to Options 2, Section 5 in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.<sup>11</sup> Finally, a Directed Market Maker is subject to the requirements within Options 2, Section 10(a)(3)(A).<sup>12</sup>

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<sup>8</sup> Options 2, Section 5(d)(1)(A).

<sup>9</sup> An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series"). See Options 2, Section 4(j)(1)(a) and Options 2, Section 5(d)(1)(A)(i).

<sup>10</sup> Options 2, Section 4(j)(1) and Options 2, Section 5(d)(1)(A).

<sup>11</sup> Options 2, Section 4(j)(1).

<sup>12</sup> Directed Market Makers, associated with the same Options Participant, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Options Participant's assigned options series are open for trading. An Options Participant shall be considered directed in all assigned options once the Options Participant receives a Directed Order in any option in which they are assigned and shall be considered a Directed Market Maker until such time as an Options Participant notifies the Exchange that they are no longer directed. Notwithstanding the foregoing, an Options Participant shall not be required to make two-sided markets in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater. Notwithstanding the obligations specified herein, a Directed Market Maker may still receive a participation entitlement in such series if it elects to quote in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of

An Options Participant is required to meet each market making obligation separately.<sup>13</sup> Currently, Options 2, Section 5(d)(1) states, “A Market Maker who is also the Lead Market Maker, pursuant to Options 2, Section 4, will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will be held to Market Maker obligations in all other options series where assigned. A Market Maker who receives a Directed Order, as described in Options 3, Section 10, shall be held to the standard of a Directed Market Maker as described in Options 2, Section 10.” Also, Options 2, Section 4(j), applicable to Lead Market Makers, provides, “A Market Maker who is also the Lead Market Maker, pursuant to Options 2, Section 4, will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will be held to Market Maker obligations in all other options series where assigned pursuant to Options 2, Section 5(d).”

Today, the Exchange calculates whether a Participant that is assigned in an options series as both a Lead Market Maker and a Market Maker has met its quoting obligations as Lead Market Maker and Market Maker, respectively, by aggregating all quotes submitted through the Specialized Quote Feed<sup>14</sup> interface from the Participant, whether the quote was submitted by the Participant in its capacity as Lead Market Maker or Market Maker.

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nine months or greater series and otherwise satisfies the requirements of Options 3, Section 10.

<sup>13</sup> See Options 2, Section 5(d)(1). Today, the Exchange aggregates all quotes submitted through the Specialized Quote Feed interface from the Participant, regardless of whether the quote was submitted by the Participant in its capacity as Lead Market Maker or Market Maker.

<sup>14</sup> “Specialized Quote Feed” or “SQF” is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening

The Exchange proposes to amend its calculation to only consider quotes submitted through the Specialized Quote Feed interface utilizing badges<sup>15</sup> and options series<sup>16</sup> assigned to a Lead Market Maker when calculating whether a Participant acting as a Lead Market Maker has satisfied the requirements to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce for which that Participant's assigned options series are open for trading. Similarly, the Exchange proposes to only consider quotes submitted through the Specialized Quote Feed interface utilizing badges and options series assigned to a Market Maker when calculating whether a Participant acting as a Market Maker has satisfied the requirements to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as BX may announce for which that Participant's assigned options series are open for trading. With this proposed change, an Options Participant that is a Market Maker in an options series where the Options Participant is also assigned as the Lead Market Maker, pursuant to Options 2, Section 4, in an options series will be held to both the Lead Market Maker and Market Maker obligations, pursuant to Options 2, Section 5(d), separately, in that options series. The Exchange will consider whether an Options Participant, acting as both Lead Market Maker and Market Maker in an assigned options series, has complied with each requirement by only considering quotes in the respective badges.

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imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. See Options 3, Section 7(e)(1)(B).

<sup>15</sup> The term "badge" means an account number, which may contain letters and/or numbers, assigned to BX Market Makers. A BX Market Maker account may be associated with multiple badges. See Options 1, Section 1(a)(6).

<sup>16</sup> BX currently utilizes a badge with an associated options series to designate a Lead Market Maker assigned in an options series and a badge with an associated options series to designate a Market Maker assigned in an option series.

By way of example,

**Current Quoting obligation methodology:**

Lead Market Maker firm 123 is assigned five badges: 123A, 123B, 123C, 123D and 123E

Badge 123A is designated the Lead Market Maker badge and badge 123B-E are designated as Market Maker badges.

Today, all quoting activity from all 5 badges is aggregated in determining if Firm 123 complied with the requirement to provide two-sided quotations in 90% of the cumulative number of seconds for which that Participant's assigned options series are open for trading. The higher of the two obligations is required today.

**Proposed Quoting obligation methodology:**

Lead Market Maker firm 123 is assigned five badges: 123A, 123B, 123C, 123D and 123E.

Badge 123A is designated the Lead Market Maker badge and badge 123B-E are designated as Market Maker badges.

As proposed only quoting activity from badge 123A (and excluding badges 123 B-E) would be counted toward the requirement to provide two-sided quotations in 90% of the cumulative number of seconds for which that Participant's assigned options series are open for trading.

All other badges (123 B-E), excluding badge 123A, would be counted toward the requirement to provide two-sided quotations in 60% of the cumulative number of seconds for which that Participant's assigned options series are open for trading.

An Options Participant may have only one Lead Market Maker badge per option series.

The below example explains how the Exchange aggregates quotes from Lead Market Makers, in their assigned options series, to determine compliance with quoting requirements, which will not be changing pursuant to this proposal. The same calculation applies to quotes from Market Makers in their assigned options series.

Under the proposal, and as is the case today, by way of example, assume Lead Market Maker Firm ABC is assigned in five symbols across 2 different badges:

Badge 123A and B is assigned in symbols QQQ and SPY, respectively

Badge 124A, B and C is assigned in symbols IBM, GM, and MSFT, respectively

Quotes submitted through the Specialized Quote Feed interface from the Firm ABC's

Lead Market Maker badges from all 5 symbols will be counted in determining

compliance with Firm ABC's requirement to provide two-sided quotations in 90% of the cumulative number of seconds for which Firm ABC's assigned options series are open for trading.

If Firm ABC Lead Market Maker badge 123A quotes symbol QQQ at 95% and badge 123B quotes symbol SPY at 90% and Firm ABC Lead Market Maker badge 124A quotes IBM at 85%, badge 124B quotes GM at 95%, and badge 124C quotes MSFT at 90% then Firm ABC will have met its requirement to provide two-sided quotations in 90% of the cumulative number of seconds for which Firm ABC's assigned options series are open for trading because the percentage across the 5 symbols is 91%.

#### Technical Amendments

The Exchange proposes a technical amendment to Options 1, Section 1, Definitions. Specifically, the Exchange proposes to amend Options 1, Section 1(a)(10) which contains the

term “BX Options Market Maker” or “Options Market Maker.” The Exchange proposes to amend the term “mean” to “means.”

Also, the Exchange proposes to amend Options 2, Section 4(j) to correct an inaccurate citation to Options 2, Section 4 subsection (f)(4)-(6). Subsections (f)(5) and (6) do not exist. The Exchange proposes to amend the citation to Options 2, Section 4 subsection (f)(4) which contains intra-day bid/ask differentials.

### Implementation

The Exchange proposes to implement this rule change on August 2, 2021. The Exchange has issued an Options Regulatory Alert notifying Options Participants of this change.<sup>17</sup>

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>18</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>19</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by requiring Lead Market Makers and Market Makers to separately meet quoting requirements as both a Lead Market Maker and Market Maker respectively, when the Options Participant is assigned in both roles in an options series.

The Exchange’s proposal to separately calculate Market Maker and Lead Market Maker quoting obligations where the Participant is assigned as both Lead Market Maker and Market Maker in an options series is consistent with the Act. Specifically, the Exchange’s proposal would only consider quotes submitted through the Specialized Quote Feed interface utilizing

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<sup>17</sup> See Options Regulatory Alert 2021-36.

<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(5).



badges and options series assigned to a Lead Market Maker when calculating whether a Participant acting as a Lead Market Maker has satisfied the requirements to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce for which that Participant's assigned options series are open for trading. Similarly, the Exchange's proposal would only consider quotes submitted through the Specialized Quote Feed interface utilizing badges and option series assigned to a Market Maker when calculating whether a Participant acting as a Market Maker has satisfied the requirements to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as BX may announce for which that Participant's assigned options series are open for trading.

The proposed change for calculating the Lead Market Maker requirement separate from the Market Maker requirement, where a Participant is assigned in both roles in an options series, would ensure that the Participant quotes the requisite number of seconds in an assigned options series, when acting as both Lead Market Maker and Market Maker. This would ensure that an Options Participant adds the requisite amount of liquidity in that assigned options series in exchange for certain benefits offered by the Exchange to the Options Participant, such as enhanced Lead Market Maker allocation<sup>20</sup> and favorable pricing,<sup>21</sup> in addition to the Options Participant fulfilling other market making obligations specified in Options 2, Section 4(a) and (b).<sup>22</sup>

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<sup>20</sup> See Options 3, Section 10(a)(1)(C)(1)(b) and Options 3, Section 10(a)(1)(C)(2)(ii).

<sup>21</sup> See Options 7, Pricing Schedule.

<sup>22</sup> In registering as a Market Maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Ordinarily, Market Makers are expected to: (1) During trading hours, a Market Maker must maintain a two-sided market, pursuant to Section 5(d)(1) of Options 2, in those options in which the Market

### Technical Amendments

The Exchange's proposal to amend Options 1, Section 1(a)(10), which contains the term "BX Options Market Maker" or "Options Market Maker," to amend the term "mean" to "means" is a non-substantive amendment. Also, the Exchange's proposal to amend Options 2, Section 4(j) to correct an inaccurate citation is a non-substantive amendment. Correcting these technical amendments will bring greater clarity to BX's Rules.

#### 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. Rather, the proposal would ensure that Options Participants that are assigned in an options series as both the Lead Market Maker and Market Maker, respectively, are meeting the same quoting obligations as other Options Participants who are assigned solely as either the Lead Market Maker or Market Maker in an option series. Also, this proposal would ensure that an Options Participant quotes the requisite number of seconds in an assigned options series, when acting as both Lead Market

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Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market. (2) Engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. (3) Compete with other Market Makers in all options in which the Market Maker is registered to trade. (4) Make markets that will be honored for the number of contracts entered into BX Options' System in all options in which the Market Maker is registered to trade. (5) Update quotations in response to changed market conditions in all options in which the Market Maker is registered to trade. (6) Maintain active markets in all options in which the Market Maker is registered. (7) Honor all orders that the Trading System routes to away markets pursuant to Options 5 of these Rules. Options Market Makers should not effect purchases or sales on BX Options except in a reasonable and orderly manner. See Options 2, Section 4(a) and (b).

Maker and Market Maker, respectively, thereby adding the requisite amount of liquidity in exchange for certain benefits provided by the Exchange such as enhanced Lead Market Maker allocation<sup>23</sup> and favorable pricing,<sup>24</sup> in addition to fulfilling its other market making obligations specified in Options 2, Section 4(a) and (b).<sup>25</sup>

#### Technical Amendments

The Exchange's proposal to amend Options 1, Section 1(a)(10), which contains the term "BX Options Market Maker" or "Options Market Maker," to amend the term "mean" to "means" is a non-substantive amendment. Also, the Exchange's proposal to amend Options 2, Section 4(j) to correct an inaccurate citation is a non-substantive amendment. Amending these rules does not impose an undue burden on competition because the corrections will bring greater clarity to BX's Rules.

#### 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

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<sup>23</sup> See note 20 above.

<sup>24</sup> See note 21 above.

<sup>25</sup> See note 22 above.

Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>26</sup> and Rule 19b-4(f)(6) thereunder.<sup>27</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>28</sup> normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>29</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 upon filing. Waiving the operative delay will allow the Exchange to amend, without delay, its rules regarding Market Maker quoting obligations to ensure that member organizations assigned in an options series as both the Lead Market Maker and Market Maker would have the same quoting obligations as member organizations who are assigned solely as either Lead Market Maker or Market Maker in an option series. In addition, such waiver will permit technical amendments, which bring greater clarity to BX's rules, to be effective without undue delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest and hereby designates the proposed rule change to be operative upon filing.<sup>30</sup>

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>27</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange 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.

<sup>28</sup> 17 CFR 240.19b-4(f)(6).

<sup>29</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>30</sup> For purposes only of waiving the 30-day operative delay, the Commission has also 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 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.

#### 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-2021-031 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-2021-031. 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.

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-2021-031 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>31</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>31</sup> 17 CFR 200.30-3(a)(12).