SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-93896; File No. SR-BX-2021-054)

January 4, 2022

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt An Add Liquidity Order and Post-Only Quote Configuration functionality

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 December 22, 2021, Nasdaq BX, Inc. ("BX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Options 3, Section 1 (Days and Hours of Business), Section 7 (Types of Orders and Quote Protocols), Section 13 (Price Improvement Auction ("PRISM")) and Section 15 (Risk Protections).

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

[2]   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 the following rules: Options 3, Section 1 (Days and

Hours of Business), Section 7 (Types of Orders and Quote Protocols), Section 13 (Price

Improvement Auction ("PRISM")) and Section 15 (Risk Protections). Each change will be

described below.

Options 3, Section 1

The Exchange proposes to amend Options 3, Section 1 concerning the Days and Hours of

Business. The Exchange proposes to amend the title from "Days and Hours of Business" to

"Hours of Business." BX recently filed to establish General 3, Section 1030, which governs the

days the Exchange will be open for business.[3] At this time the Exchange proposes to amend

Options 3, Section 1(c) which provides, "BX Options shall not be open for business on any

holiday observed by BX." The Exchange proposes to instead provide, "BX Options shall not be

open for business as provided within General 3, Section 1030." This proposed text will make

clear that while General 3, Section 1030 governs the days the Exchange will be open for

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[3]   See Securities Exchange Act Release No. 93675 (November 29, 2021), 86 FR 68714
        (December 3, 2021) (SR-NASDAQ-2021-69) (Notice of Filing and Immediate
        Effectiveness of Proposed Rule Change To Include Juneteenth National Independence
        Day as a Holiday). BX's General 3 rules incorporate by reference The Nasdaq Stock
        Market LLC's General 3 Rules. Rule 1030 of General 3 memorialized all current
        Exchange holidays and added a provision to permit the Exchange the authority to halt or
        suspend trading or close Exchange facilities for certain unanticipated closures.

business, the remainder of the rule addresses the hours of operation of the System and specific

products. Finally, the Exchange proposes to update citations to the Options 4 rules related to

Exchange-Traded Fund Shares and Index-Linked Securities.

Options 3, Section 7

The Exchange proposes to amend Options 3, Section 7 to add a new order type entitled

"Add Liquidity Order" within Options 3, Section 7(a)(12). Today, Nasdaq ISE, LLC ("ISE"),

Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") have a similar order type

within Options 3, Section 7(n). ISE adopted the Add Liquidity Order to provide an additional

order type that will give market participants greater control over the circumstances in which their

orders are executed.[4] ISE's 2012 rule change explained that

> [s]ome investors and market participants wish only to provide liquidity in certain
> circumstances, such as to receive a maker fee (rebate) upon execution of an order.
> To accommodate this strategy, the Exchange proposed to adopt a new order type
> called an add liquidity order ("ALO"). ALOs are limit orders that will only be
> executed as a "maker" on the ISE. Members can choose whether an ALO that is
> executable on the ISE upon entry (or that locks or crosses an away market upon
> entry) will be cancelled or re-priced to one minimum price variation above the
> national best bid or below the national best offer. An Add Liquidity Order will
> only be re-priced once and will be executed at the re-priced price.[5]

ISE subsequently amended this order type in 2012 such that, if at the time of entry, an ALO

would lock or cross one or more non-displayed orders on the Exchange, the ALO will be

cancelled or re-priced to the minimum price variation[6] ("MPV") above the best non-displayed

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[4]   See Securities Exchange Act Release No. 66617 (March 19, 2012), 77 FR 17102 (March
        23, 2012) (SR-ISE-2012-20) (Notice of Filing and Immediate Effectiveness of Proposed
        Rule Change To Adopt a New Order Type).

[5]   Id at 17103.

[6]   See Options 3, Section 3 (Minimum Increments).

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bid price (for sell orders) or below the best non-displayed offer price (for buy orders).[7] ISE

noted in that filing that it believed that adding this functionality was imperative to ensure that

ALOs are only executed when providing liquidity. Without the ability to re-price an ALO that

locks or crosses a non-displayed order, under certain circumstances, an incoming ALO could

execute against a non-displayed order resting on the ISE limit order book, which would be in

direct contravention with the purpose of an ALO--to provide liquidity, not take liquidity.[8]

At this time, the Exchange proposes to adopt an Add Liquidity Order similar to ISE,

GEMX and MRX Options 3, Section 7(n). The proposed Add Liquidity Order would be a limit

order that is to be executed in whole or in part on the Exchange (i) only after being displayed on

the Exchange's limit order book; and (ii) without routing any portion of the order to another

market center. Participants would be able to specify whether an Add Liquidity Order shall be

cancelled or re-priced to the MPV above the national best bid price (for sell orders) or below the

national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the

Exchange; or (ii) the order is not executable on the Exchange but would lock or cross the

national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one

or more non-displayed orders or quotes on the Exchange, the Add Liquidity Order shall be

cancelled or re-priced to the MPV above the best non-displayed bid price (for sell orders) or

below the best non-displayed offer price (for buy orders). Notwithstanding the aforementioned,

if an Add Liquidity Order would not lock or cross an order or quote on the System but would

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[7]   See Securities Exchange Act Release No. 67353 (July 5, 2012), 77 FR 40935 (July 11, 2012) (SR-ISE-2012-61) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by International Securities Exchange To Amend ISE Rule 715 To Reflect a Modification in the Functionality of the Add Liquidity Order).

[8]   Id at 40935.

lock or cross the NBBO,[9] the order will be handled pursuant to Options 3, Section 5(d).[10] This

repricing of Add Liquidity Orders is the way other order types are currently re-priced on ISE,

GEMX and MRX. The Exchange notes that the same sentence does not appear in the ISE,

GEMX and MRX Add Liquidity Order description.[11]

Finally, BX proposes to add rule text that is not currently in the ISE, GEMX and MRX

rule. Add Liquidity Orders may only be submitted when an options series is open for trading.[12]

Therefore, an Add Liquidity Order would not be accepted during the Opening Process when the

order book is not available.

The Exchange believes that, similar to ISE, GEMX and MRX, the adoption of an Add

Liquidity Order will give market participants greater control over the circumstances in which

their orders are executed in addition to the order types which are currently offered today on BX.

Below are some examples of the Add Liquidity Order.

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[9]   The term "NBBO" means the national best bid or offer as calculated by BX Options
        based on market information received by BX Options from OPRA. See Options 3,
        Section 1(a)(33).

[10]   Options 3, Section 5(d) provides, "An order will not be executed at a price that trades
        through another market or displayed at a price that would lock or cross another market.
        An order that is designated by the member as routable will be routed in compliance with
        applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is
        designated by a member as non-routable will be re-priced in order to comply with
        applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of
        entry, an order that the entering party has elected not to make eligible for routing would
        cause a locked or crossed market violation or would cause a trade-through violation, it
        will be re-priced to the current national best offer (for bids) or the current national best
        bid (for offers) and displayed at one minimum price variance above (for offers) or below
        (for bids) the national best price."

[11]   See ISE, GEMX and MRX Options 3, Section 5(d). The Exchange will amend the ISE,
        GEMX and MRX rules in separate rule changes.

[12]   ISE, GEMX and MRX will propose a change to Options 3, Section 7(n) to add similar
        rule text.

Add Liquidity Only Order Re-price example

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote $0.90 (10) x $1.00 (10)
- ABBO $0.85 x $1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at $1.00
    - Reprices on book to $0.95
    - Displays on $0.95 bid, which is National Best displayed bid with 5 quantity
- Order to sell 10 arrives at $0.90
    - 5 execute with Firm A @ $0.95
    - 5 execute with Market A @ $0.90
    - NBBO updates back to $0.90 x $1.00

Add Liquidity Only Reject example

- Non-Penny Program MPV Option in open trading state
- Market Maker A quote $0.90 (10) x $1.00 (10)
- ABBO $0.85 x $1.05
- Firm A sends Add Liquidity Only Order to buy 5 arrives at $1.00
    - Order is rejected back to sender because the sender configured the order for reject instead of re-price

The Exchange also proposes to amend Options 3, Section 7(a)(11) to remove the title

"Block Order" at the beginning of the sentence to conform the style of the description to the

remaining order types within Options 3, Section 7.

Options 3, Section 13

The Exchange proposes to amend the Exchange's PRISM rule in Options 3, Section 13 to

delete an obsolete auction eligibility requirement and clarify existing rule text.

Today, Options 3, Section 13(i) describes the various eligibility criteria under which a

PRISM auction may be initiated, including requirements for when PRISM orders may be

submitted. In particular, Section 13(i)(F) provides that PRISM orders submitted during the final

two seconds of the trading session in the affected series are not eligible to initiate a PRISM

auction and will be immediately cancelled. This restriction was introduced when PRISM was

first adopted on the Exchange,[13] and was based on certain technical restraints from BX's original technical design which required no ongoing auctions to begin preparing for the end of trading day transition to closing state. However, with the Exchange's recent technology migration,[14] this system restriction was removed in order to be more consistent with the price improvement mechanisms on the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX.[15] The corresponding rule text in Options 3, Section 13(i)(F) should have likewise been deleted with the legacy functionality. Accordingly, the Exchange now proposes to delete the obsolete rule text in Section 13(i)(F) in its entirety, and renumber Section 13(i)(G) as (F).

Additionally, the Exchange proposes to amend rule text regarding the PRISM Auction process. Currently, Options 3, Section 13(ii) describes the manner in which a PRISM auction may be conducted. Specifically, with respect to an unrelated market or marketable limit order, Options 3, Section 13(a)(ii)(D) provides,

> 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. If contracts remain from such unrelated order at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

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[13] See Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) (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).

[14] See Securities Exchange Act Release No. 89476 (August 4, 2020), 85 FR 48274 (SR-BX-2020-017) (August 10, 2020) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various BX Rules in Connection With a Technology Migration).

[15] None of these markets have similar system restrictions preventing the submission of orders in their respective price improvement mechanisms during the last two seconds of the trading day. See Nasdaq ISE, GEMX, and MRX Options 3, Section 13.

The term "marketable limit order" is too narrow a term as both orders and quotes on the opposite side of the market from the PRISM Order received during the PRISM auction would not cause the PRISM auction to end early and will execute against interest outside of the PRISM auction. Therefore, the Exchange proposes to replace the term "marketable limit order" with the broader term "marketable interest" to accurately describe the interest a PRISM auction would interact with in the order book on the opposite side of the market from the PRISM Order. The Exchange believes that this amendment will bring greater clarity to the PRISM rule. The proposed new rule text would provide,

> Unrelated market or marketable interest (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. If contracts remain from such unrelated interest at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

The Exchange notes that Nasdaq PHLX LLC's Price Improvement XL ("PIXL") auction does not early terminate from contra-side unrelated marketable interest.[16]

Options 3, Section 15

The Exchange proposes to amend Options 3, Section 15, Risk Protections, to adopt an optional quoting protection for BX Market Makers. This optional risk protection would allow BX Market Makers to prevent their quotes from removing liquidity from the Exchange's order book upon entry.

Specifically, the Exchange proposes to adopt a new risk protection within Options 3, Section 15(c)(3). With this risk protection, NOM Market Makers may elect to configure their

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[16]   See Phlx Options 3, Section 13(b)(4). The Exchange will separately amend Phlx's rule to make a similar change to the rule text.

SQF[17] protocols to prevent their quotes from removing liquidity ("Post-Only Quote Configuration"). This Post-Only Quote Configuration would re-price or cancel a BX Market Maker's quote that would otherwise lock or cross any resting order[18] or quote on the BX order book upon entry. The Exchange notes that this functionality does not apply during an Opening Process[19] because the order book is established once options series are open for trading.

Participants may elect whether to re-price or cancel their quotes with this functionality. When configured for re-price, quotes would be re-priced to one MPV below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one MPV below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if a quote with a Post-Only Quote Configuration would not lock or cross an order or quote on the System but would lock or cross the NBBO, the quote will be handled pursuant to Options 3, Section 4(b)(6).[20] When configured for cancel, Participants will have

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17   "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 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).

18   This would include any re-priced orders as described in Options 3, Section 5(d), any re-priced quotes as described in Options 3, Section 4(b)(6), and the proposed Add Liquidity Orders within proposed Options 3, Section 7(a)(12). As noted herein, Add Liquidity Orders may re-price.

19   The Exchange's Opening Process is described at Options 3, Section 8.

20   Options 3, Section 4(b)(6) provides, "A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best

their quotes returned whenever the quote would lock or cross the NBBO or be placed on the book at a price other than its limit price.

This optional risk protection would enable BX Market Makers to better manage their risk when quoting on BX. Today, BOX Exchange LLC ("BOX"),[21] NYSE Arca, Inc. ("NYSE Arca"),[22] and MIAX Emerald, LLC ("MIAX Emerald")[23] have similar functionality. BOX does not permit Market Maker's quotes to take liquidity and will reject the quote. Other options markets, unlike BOX, continue to permit their market makers to add or remove liquidity from the order book.[24] NYSE Arca and MIAX Emerald will re-price quotes one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX's proposal. Also, the Exchange's proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration.

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offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price."

[21] BOX Rules provide, "Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the Opening Match pursuant to Rule 7070, a Market Maker's quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected." See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016) (SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

[22] NYSE Arca permits a market maker to optionally designate a quote as "Add Liquidity Only." See NYSE Arca Rule 6.37A-O(a)(3)(B).

[23] See MIAX Emerald Rule 517(a)(1)(i).

[24] Miami International Securities Exchange LLC ("MIAX") permits its market makers to add and remove liquidity from the order book. See MIAX's Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC ("ISE") also permits market makers to add and remove liquidity from the order book. See ISE's Pricing Schedule at Options 7.

Finally, the Nasdaq Options Market LLC ("NOM") recently codified[25] a similar risk protection, however, unlike BX, NOM reprices $.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below the current low offer (for bids) or above the current best bid (for offers). The Exchange notes that, unlike BX, NOM does not offer auction functionality. Because an auction mechanism may interact adversely with Add Liquidity Only Orders or quotes with a Post-Only Quote Configuration that are re-priced in $0.01 increments and displayed at MPV increments, the Exchange proposes to re-price at one MPV.[26] BX has the PRISM auction.[27] The Exchange believes that it is consistent with the protection of investors and the general public to utilize one MPV to re-price an Add Liquidity Only Order or quote with a Post-Only Quote Configuration to avoid a PRISM auction rejecting against a non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration. The Exchange notes that a similar result could not be obtained on NOM as there are no auctions. The Add Liquidity Order on ISE, GEMX and MRX[28] also re-prices in one MPV as those markets have a price improvement auction.[29]

Further, with the adoption of Add Liquidity Orders as proposed herein within Options 3, Section 7, all BX Participants may utilize the Add Liquidity Order. The Post-Only Quote Configuration is available to Market Makers only as a risk protection.

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[25] See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

[26] For example, the inbound auction would reject against the non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration with an auction mechanism.

[27] See Options 3, Section 13.

[28] See Options 3, Section 7(n).

[29] Id.

Below are some examples of the Post-Only Quote Configuration functionality.

Post-Only Quote Configuration Reprice example

- Penny Interval Program MPV in open trading state
- Market Makers A and C do not have Post-Only Quote Configuration risk protection configured
- Market Maker B is configured for Post-Only Quote Configuration re-price
- Market Maker A quote $0.98 (10) x $1.00 (10)
- ABBO $0.96 x $1.03
- Market Maker B quote $1.00 (10) x $1.01 (10) arrives
  - Bid side of quote re-prices onto order book @ 0.99 and updates displayed NBBO to 20 quantity
  - Offer side rests at 1.01 without issue
- Market Maker C quote $0.97 (20) x 0.98 (20) arrives
  Trades 10 with Market Maker A and 10 with Market Maker B

Market Maker B avoids taking liquidity while Market Maker C, who chose not to be configured

for such, removes liquidity by interacting with re-priced interest on BX's order book.

Re-priced Post-Only Quote Configuration – Penny Interval Program Display and Execution Example – Non-Penny Interval Program (Options 3, Section 7(a)(9))

- Non-Penny Interval Program MPV in open trading state
- Market Maker A quote $0.95 (10) x $1.00 (10)
- ABBO $0.85 x $1.05
- Market Maker B (configured at the badge level for Post-Only Quote Configuration and selection of re-price upon quote) quote arrives 1.00 (5) x $1.05 (5)
  - Bid side quote re-prices on order book to $0.95
  - Displays on order book @ $0.95 (bid), which now shows (15 quantity)
  - Offer side quote books and displays at $1.05
- Order to sell 10 contracts arrives @ $0.95
  - 5 contracts execute with Market Maker B @ $0.95
  - 5 contracts execute with Market A @ $0.95

In this example, the Market Maker avoided taking liquidity by deploying the Post-Only Quote

Configuration with re-price.

Implementation

The Exchange will issue an Options Trader Alert to Participants with the date of

implementation for the Add Liquidity Order and the Post-Only Quote Configuration

functionality.

        2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[30] in general, and furthers the objectives of Section 6(b)(5) of the Act,[31] 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.

Options 3, Section 1

The Exchange's proposal to amend Options 3, Section 1 concerning the Days and Hours of Business is consistent with the Act. The proposal to amend the title from "Days and Hours of Business" to "Hours of Business" will bring greater clarity to the rule. BX recently filed to establish General 3, Section 1030, which governs the days the Exchange will be open for business.[32] Amending Options 3, Section 1(c) to reference General 3, Section 1030 will provide Participants with a guidepost as to where to locate the rule that applies to the days the Exchange is open for business. The proposed updated citations to the Options 4 rules will provide correct references for Participants and thereby bring greater clarity to the rules.

Options 3, Section 7

The Exchange's proposal to amend Options 3, Section 7 to add a new order type entitled "Add Liquidity Order" within Options 3, Section 7(a)(12) is consistent with the Act. Today, ISE, GEMX and MRX have a similar order type within Options 3, Section 7(n). The Add

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[30]   15 U.S.C. 78f(b).

[31]   15 U.S.C. 78f(b)(5).

[32]   See note 3 above.

Liquidity Order will provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed. For investors and market participants that elect only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order, the proposed order type will accommodate this strategy. Add Liquidity Orders will only be executed as a "maker" if elected.

Participants may choose to cancel or re-price Add Liquidity Orders if, at the time of entry, the order is executable on BX or the order is not executable on BX but would lock or cross the national best bid or offer. Allowing Add Liquidity Order to re-price ensures that Add Liquidity Orders are only executed when providing liquidity and avoid executing against a non-displayed order or quote resting on BX's order book, which would be in direct contravention with the purpose of the order type --to provide liquidity, not take liquidity. The Add Liquidity Order type is one of the order types that Participants may elect to utilize on BX to accomplish their trading strategies. The Exchange believes that adoption of the Add Liquidity Order will protect investors and the general public by making clear the manner in which the order would re-price on BX's order book if re-price is elected, that is to the MPV above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). As is the case today, if an order would not lock or cross an order or quote on the System but would lock or cross the NBBO, the order will be handled pursuant to Options 3, Section 5(d).

Add Liquidity Orders may only be submitted when an options series is open for trading.[33] Therefore, an Add Liquidity Order would not be accepted during the Opening Process as the order book is not available. The Exchange believes that similar to ISE, GEMX and MRX, the

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[33]   ISE, GEMX and MRX will propose a change to Options 3, Section 7(n) to add similar rule text.

adoption of an Add Liquidity Order will give market participants greater control over the circumstances in which their orders are executed in addition to the order types which are currently offered today on BX.

The Exchange's proposal to amend Options 3, Section 7(a)(11) to remove the title "Block Order" at the beginning of the sentence will conform the style of the description to the remaining order types within Options 3, Section 7.

Options 3, Section 13

With respect to amendments to Options 3, Section 13, first, the proposed rule change deletes a PRISM auction eligibility requirement that restricts PRISM orders from being submitted during the final two seconds of the trading day. As discussed above, this system restriction is legacy functionality that was removed as part of the Exchange's technology migration in 2020. The Exchange is therefore proposing to remove the corresponding rule text in Options 3, Section 13(i)(F) as obsolete. The Exchange believes that the proposed changes will align the PRISM rule with the current operation of the Exchange's system and will reduce potential confusion about when PRISM orders may be submitted. As noted above, the Exchange's affiliated options markets, Nasdaq ISE, GEMX, and MRX, do not have similar system restrictions for their respective price improvement mechanisms.[34] Furthermore, the Exchange believes that removing this system restriction may encourage greater participation in PRISM as Participants are no longer restricted from submitting PRISM orders during the last two seconds of the trading day, thereby increasing the opportunity for options orders to receive executions and price improvement on the Exchange.

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[34]   See note 15 above.

Second, the proposed rule change amends Options 3, Section 13(a)(ii)(D) which describes the manner in which a PRISM auction may be conducted. As noted herein, the term "marketable limit order" is too narrow a term as both orders and quotes on the opposite side of the market from the PRISM Order received during the PRISM auction would not cause the PRISM auction to end early and execute against interest outside of the PRISM auction. Amending Options 3, Section 13(a)(ii)(D) to replace the term "marketable limit order" with the broader term "marketable interest" will more accurately describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order. The Exchange believes that this amendment is consistent with the Act as it will bring greater clarity to the PRISM rule.

Options 3, Section 15

The Exchange's proposal to amend Options 3, Section 15, Risk Protections, to codify new paragraph (c)(3) to permit BX Market Makers to prevent their quotes from removing liquidity from the Exchange's order book promotes equitable principles of trade and protects investors and the public interest by enhancing the risk protections available to BX Market Makers. The proposal also promotes the policy goals of the Commission which has encouraged execution venues, exchanges, and non-exchanges alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability.

While BX Market Makers may manage their risk by utilizing the Post-Only Quote Configuration to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on the BX order book upon entry, there are also downstream benefits to market participants. Re-priced interest on the order book provides price improvement for market participants that interact with that non-displayed interest that is

priced better than the NBBO. For example, the proposed Add Liquidity Order may re-price to the MPV above the national best bid price (for sell orders) or below the national best offer price (for buy orders) resulting in better-priced non-displayed interest that is available on the order book. Market participants are entitled to the better-priced interest when they interact with the re-priced Add Liquidity Order on the order book. Additionally, the benefits of enhanced risk protections flow downstream to counterparties both within and away from the Exchange, thereby increasing systemic protections as well.

The proposed risk protection allows BX Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, thereby protecting investors and the general public as BX Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. BX Market Makers would utilize the proposed risk protection to avoid unexpectedly taking liquidity with non-displayed, non-transparent interest[35] on the order book. As a result of taking liquidity, BX Market Makers would incur a taker fee that may impact the BX Market Maker's ability to provide liquidity and meet quoting obligations. BX Market Makers are required to add liquidity on NOM and, in turn, are rewarded with lower pricing[36] and enhanced allocations.[37] Specifically, the risk protection would permit BX Market Makers to add liquidity only and avoid removing non-displayed interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to BX by allowing BX Market Makers to provide as much liquidity as possible, thereby removing impediments to and perfecting the mechanism of a

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[35]   See note 18 above.

[36]   See Options 7, Section 2.

[37]   See Options 3, Section 10.

free and open market and a national market system and protecting investors and the public

interest. There is no impact to other market participants by introducing this Post-Only Quote

Configuration as other non-Market Makers may utilize the proposed Add Liquidity Only order

type that will continue to benefit downstream counterparties, both within and away from the

Exchange, who may interact with non-displayed interest on BX's order book and thereby interact

with order flow that is priced better than the NBBO. Also, other market participants may interact

with the liquidity provided by BX Market Makers.

This optional risk protection enables BX Market Makers to better manage their risk when

quoting on BX. Today, BOX,[38] NYSE Arca,[39] MIAX Emerald[40] and NOM[41] have similar

functionality. BOX does not permit Market Maker's quotes to take liquidity and will reject the

quote. Other options markets, unlike BOX, continue to permit their market makers to add or

remove liquidity from the order book.[42] NYSE Arca and MIAX Emerald will re-price quotes

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[38]   BOX Rules provide, "Notwithstanding Rule 100(a)(56), all quotes and quote updates on BOX after the opening are liquidity adding only. Specifically, after the Opening Match pursuant to Rule 7070, a Market Maker's quote will not execute against a resting order or quote on the BOX Book. If an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected." See BOX IM-8050-3. See also Securities Exchange Act Release No. 79311 (November 15, 2016), 81 FR 83322 (November 21, 2016) (SR-BOX-2016-45) (Order Approving a Proposed Rule Change To Amend the Treatment of Quotes To Provide That All Quotes on BOX Are Liquidity Adding Only).

[39]   NYSE Arca permits a market maker to optionally designate a quote as "Add Liquidity Only." See NYSE Arca Rule 6.37A-O(a)(3)(B).

[40]   See MIAX Emerald Rule 517(a)(1)(i).

[41]   See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

[42]   Miami International Securities Exchange LLC ("MIAX") permits its market makers to add and remove liquidity from the order book. See MIAX's Fee Schedule which delineates Maker and Taker pricing. Nasdaq ISE, LLC ("ISE") also permits market

one MPV to avoid the quote from trading as a liquidity taker against the resting order similar to BX's proposal. Also, the Exchange's proposal permits a BX Market Maker a choice as to whether to cancel or re-price its quote when using the Post-Only Quote Configuration.

Finally, NOM recently codified[43] a similar risk protection, however, unlike BX which re-prices in MPVs, NOM reprices $.01 below the current low offer (for bids) or above the current best bid (for offers) and displays the quote at one MPV below the current low offer (for bids) or above the current best bid (for offers). The Exchange notes that, unlike BX, NOM does not offer auction functionality. Because an auction mechanism may interact adversely with Add Liquidity Only Orders or quotes with a Post-Only Quote Configuration that are re-priced in $0.01 increments and displayed at MPV increments, the Exchange proposes to re-price at one MPV.[44] BX has the PRISM auction.[45] The Exchange believes that it is consistent with the protection of investors and the general public to utilize one MPV to re-price an Add Liquidity Only Order or quote with a Post-Only Quote Configuration to avoid a PRISM auction rejecting against a non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration. The Exchange notes that a similar result could not be obtained on NOM as it has no auctions. The Add Liquidity Order on ISE, GEMX and MRX[46] also re-prices in one MPV as those markets

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makers to add and remove liquidity from the order book. See ISE's Pricing Schedule at Options 7.

[43] See Securities and Exchange Release No. 93662 (November 23, 2021), 86 FR 68009 (November 30, 2021) (SR-NASDAQ-2021-094) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Post-Only Quote Configuration Risk Protection).

[44] For example, the inbound auction would reject against the non-displayed Add Liquidity Only Order or quote with a Post-Only Quote Configuration with an auction mechanism.

[45] See Options 3, Section 13.

[46] See Options 3, Section 7(n).

have a price improvement auction.[47]

Further, with the adoption of Add Liquidity Orders as proposed herein within Options 3, Section 7, all BX Participants may utilize the Add Liquidity Order. The Post-Only Quote Configuration is available to Market Makers only as a risk protection.

Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis[48] and are subject to various obligations associated with providing liquidity on the market.[49] BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.[50] The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations. The Exchange notes that enhancing the ability of BX Market Makers to add liquidity and avoid taking liquidity from the order book promotes just and equitable principles of trade on BX and protects investors and the public interest, thereby enhancing market structure by allowing BX Market Makers to add liquidity only. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by BX Market Makers. Also, an increase in the activity of BX Market Makers in turn facilitates tighter spreads.

Finally, with the proposed addition of Add Liquidity Orders, all Participants may utilize

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[47]   Id.

[48]   See BX Options 2, Section 4(j) and Section 5(d).

[49]   See BX Options 2, Section 4.

[50]   Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.

similar functionality for orders and quotes.

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.

Options 3, Section 1

The Exchange's proposal to amend Options 3, Section 1 concerning the Days and Hours of Business does not impose an undue burden on competition. The proposal to amend the title from "Days and Hours of Business" to "Hours of Business" will bring greater clarity to the rule. Amending Options 3, Section 1(c) to reference General 3, Section 1030 will provide Participants with a guidepost as to where to locate the rule that applies to the days the Exchange is open for business. The proposed updated citations to the Options 4 rules will provide correct references for Participants and thereby bring greater clarity to the rules.

Options 3, Section 7

The Exchange's proposal to amend Options 3, Section 7 to add a new order type entitled "Add Liquidity Order" within Options 3, Section 7(a)(12) does not impose an undue burden on competition. Today, ISE, GEMX and MRX have a similar order type within Options 3, Section 7(n). The Add Liquidity Order will provide an additional order type that will give market participants greater control over the circumstances in which their orders are executed. All Participants may utilize the Add Liquidity Order type.

The Exchange's proposal to amend Options 3, Section 7(a)(11) to remove the title "Block Order" at the beginning of the sentence will conform the style of the description to the remaining order types within Options 3, Section 7.

Options 3, Section 13

Removing Options 3, Section 13(i)(F) does not impose an undue burden on competition as the rule text is obsolete and the removal of the rule text will bring greater transparency to and reducing potential confusion about the Exchange's Rulebook.

Amending Options 3, Section 13(a)(ii)(D) to utilize the broader term "marketable interest" does not impose an undue burden on competition as it will more accurately describe the way a PRISM auction would interact with interest in the order book on the opposite side of the market from the PRISM Order.

Options 3, Section 15

Adopting a Post-Only Quote Configuration within Options 3, Section 15(c)(3) does not impose an undue burden on competition, rather the proposal provides BX Market Makers with the opportunity to continue to avail themselves of functionality that currently exists on BOX, NYSE Arca, MIAX Emerald and NOM.[51]

The proposal does not impose a burden on inter-market competition, because Participants may choose to become market makers on a number of other options exchanges, which may have similar but not identical features. The Post-Only Quote Configuration functionality will continue to benefit downstream counterparties, both within and away from the Exchange, who may interact with non-displayed interest on BX's order book and thereby interact with order flow that is priced better than the NBBO.

The proposal does not impose a burden on intra-market competition. BX proposes to adopt an Add Liquidity Order herein which will permit all Participants to receive similar treatment for their orders. Offering BX Market Makers the ability to configure their quotes as Post-Only will allow all market participants on BX to add liquidity only if desired.

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[51]   See notes 21-25 above.

The proposed risk protection allows BX Market Makers the ability to avoid removing liquidity from the Exchange's order book if their quote would otherwise lock or cross any resting order or quote on BX's order book upon entry, thereby protecting investors and the general public as BX Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. BX Market Makers are required to add liquidity on BX and, in turn, are rewarded with lower pricing[52] and enhanced allocations.[53] Specifically, the risk protection would permit BX Market Makers to add liquidity only and avoid removing non-displayed interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to BX by allowing BX Market Makers to provide as much liquidity as possible. Unlike other market participants, BX Market Makers have certain obligations on the market. BX Market Makers are required to provide continuous two-sided quotes on a daily basis[54] and are subject to various obligations associated with providing liquidity on the market.[55] BX Market Makers are the sole liquidity providers on the Exchange and, therefore, are offered certain quote risk protections noted within Options 3, Section 15 to allow them to manage their risk more effectively.[56] The proposed Post-Only Quote Configuration is another risk protection afforded to BX Market Makers to assist them in managing their risk while continuing to comply with their obligations.

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[52]   See Options 7, Section 2.

[53]   See Options 3, Section 10.

[54]   See BX Options 2, Section 4(j) and Section 5(d).

[55]   See BX Options 2, Section 4.

[56]   Options 3, Section 15(c) describes the Anti-Internalization and Quotation Adjustments Protections that are available today to BX Market Makers.

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 foregoing 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)(iii) of the Act[57] and subparagraph (f)(6) of Rule 19b-4 thereunder.[58]

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 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:

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[57] 15 U.S.C. 78s(b)(3)(A)(iii).

[58] 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-2021-054 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-2021-054. 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-2021-054 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.[59]

J. Matthew DeLesDernier
Assistant Secretary

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[59]   17 CFR 200.30-3(a)(12).