

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104494; File No. SR-ISE-2025-43]

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt a Best Execution and Interpositioning Rule

December 22, 2025.

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, 2025, Nasdaq ISE, LLC (“ISE” 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 adopt a Best Execution and Interpositioning rule at proposed Options 9, Section 26.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/ise/rulefilings>, and at the principal office of the Exchange.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 adopt a Best Execution and Interpositioning rule at proposed Options 9, Section 26 that is identical to Nasdaq Phlx LLC ("Phlx") Best Execution and Interpositioning rule at General 9, Section 11.

Background

A broker-dealer has a legal duty to seek best execution of customer orders. The duty of best execution predates the Federal securities laws and is derived from an implied representation that a broker-dealer makes to its customers. The duty is established from "common law agency obligations of undivided loyalty and reasonable care that an agent owes to [its] principal."³ This obligation requires that a "broker-dealer seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances."⁴ The duty of best execution is addressed at FINRA Rule 5310.

³ See, e.g., *Newton v. Merrill, Lynch, Pierce, Fenner & Smith, Inc.*, 135 F.3d 266, 270 (3d Cir.), cert. denied, 525 U.S. 811 (1998).

⁴ See Securities Exchange Act Release No. 37619A (Sept. 6, 1996), 61 FR 48290 (Sept. 12, 1996) ("Order Execution Obligations Adopting Release").

The Commission has previously stated that the duty of best execution requires a broker-dealer to execute customers' trades at the most favorable terms reasonably available under the circumstances, i.e., at the best reasonably available price.⁵ The Commission has described a non-exhaustive list of factors that may be relevant to broker-dealers' best execution analysis. These factors include the size of the order, speed of execution, clearing costs, the trading characteristics of the security involved, the availability of accurate information affecting choices as to the most favorable market center for execution and the availability of technological aids to process such information, and the cost and difficulty associated with achieving an execution in a particular market center.⁶

In addition, the Commission has expressed concerns regarding interpositioning and the duty of best execution. Interpositioning can occur when a broker-dealer places a third party between itself and the best market for executing a customer trade in a manner that results in a customer not receiving the best available market price.⁷ Interpositioning can violate the broker-

⁵ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37538 (June 29, 2005) ("Regulation NMS Adopting Release").

⁶ See Securities Exchange Act Release No. 96496 (December 14, 2022), 88 FR 5440, 5474 [sic] (January 27, 2023) (File No. S7-32-22) (Regulation Best Execution).

⁷ See *Edward Sinclair, et al.*, Securities Exchange Act Release No. 9115, 1971 WL 120487 (Mar. 24, 1971) (Comm'n op.), aff'd, 444 F.2d 399 (2d Cir. 1971) (order clerk in OTC department of broker-dealer interposed a broker-dealer between his firm and best available market price in return for split of profits with the interposed broker); *H.C. Keister & Co., et al.*, Securities Exchange Act Release No. 7988, 1966 WL 84120 (Nov. 1, 1966) (Comm'n op.) (in exchange for payments, trader for a large broker-dealer interpositioned a small broker-dealer between its customers' orders and the best available market prices); *Synovus Securities, Inc.*, Securities Exchange Act Release No. 34313, 1994 WL 323096 (July 5, 1994) (settled order) (broker-dealer and its president placed customer orders with person who was able to promptly sell the bonds to or buy the bonds from other brokers at a profit and customers did not get the best market price). See also *SEC v. Ridenour*, 913 F.2d 515 (8th Cir. 1990) (a bond salesman violated the antifraud provisions based on his secret interpositioning of his personal trading account between his customers' securities transactions and the fair market price of the trades).

dealer's duty of best execution when it results in unnecessary transaction costs at the expense of the customer.⁸

Proposal

At this time, the Exchange proposes to codify the broker dealer's duty of best execution at Options 9, Section 26 and title the new rule, "Best Execution and Interpositioning."

A broker-dealer that engages in a transaction for or with a customer or a customer of another broker-dealer, a Member and persons associated with a Member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Utilizing the Commission's non-exhaustive list of factors, FINRA Rule 5310 and identical to Phlx General 9, Section 11, the following are among the factors that will be considered in determining whether a Member has used "reasonable diligence" are:

- the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- the size and type of transaction;
- the number of markets checked;
- accessibility of the quotation; and

⁸ See *Thomson & McKinnon*, Securities Exchange Act Release No. 8310, 1968 WL 87637 (May 8, 1968) (Comm'n op.) (a National Association of Securities Dealers ("NASD") member firm interposed broker-dealers between itself and the best available market, and the added transaction cost was borne by its customers; the Commission found that, "[i]n view of the obligation of a broker to obtain the most favorable price for his customer, where he interposes another broker-dealer between himself and a third broker-dealer, he *prima facie* has not met that obligation and he has the burden of showing that the customer's total cost or proceeds of the transaction is the most favorable obtainable under the circumstances").

- the terms and conditions of the order which result in the transaction, as communicated to the Member and persons associated with the Member.⁹

To prevent a broker-dealer from avoiding its best execution obligation via a third-party, the Exchange proposes to state that in any transaction for or with a customer or a customer of another broker-dealer, no Member or person associated with a Member shall interject a third party between the Member and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.¹⁰

Next, the Exchange notes that it is the Member's obligation to demonstrate best execution. To this end, the Exchange proposes to state that when a Member cannot execute directly with a market maker but must employ a broker's broker or some other means in order to ensure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.¹¹

The Exchange further notes that a Member cannot use staffing or a third party as a reason to not execute a transaction in accordance with its best execution obligation. The Exchange proposes to state that failure to maintain or adequately staff a department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as

⁹ See proposed Options 9, Section 26(a)(1). This rule text is identical to Phlx General 9, Section 11(a)(1).

¹⁰ See proposed Options 9, Section 26(a)(2). This rule text is identical to Phlx General 9, Section 11(a)(2).

¹¹ See proposed Options 9, Section 26(b). This rule text is identical to Phlx General 9, Section 11(b).

reciprocation for service or business operate to relieve a Member of its obligations.¹² The proposed rule does however advise that certain executions where orders are channeled and there are established correspondent relationships or a give-up relationship to meet the requirements of best obligation if the executions are confirmed directly to the Member acting as agent for the customer. The Exchange proposes to state that the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the Member acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.¹³

The proposed rule also holds Members responsible where they are a party to the transaction chain where the best execution obligation was not met. The Exchange proposes to state that a Member through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating Member has not fulfilled his obligations under this Rule, will also be deemed to have violated Options 9, Section 26.¹⁴

A Member is subject the duty of best execution where it acts as agent for the account of his customer or executes a retail transaction as principal and the transaction is contemporaneously offset.¹⁵

¹² See proposed Options 9, Section 26(c). This rule text is identical to Phlx General 9, Section 11(c).

¹³ See id.

¹⁴ See proposed Options 9, Section 26(d). This rule text is identical to Phlx General 9, Section 11(d).

¹⁵ See proposed Options 9, Section 26(e). This rule text is identical to Phlx General 9, Section 11(e).

Finally, the duty of best execution applies when customer orders are routed to and from a broker/dealer to another broker/dealer for execution.¹⁶ This provision is intended to address certain interpretive questions concerning the applicability of the best execution rule.

The Exchange proposes to note, identical to Phlx General 9, Section 11, that for the purposes of this Rule, the term “market” or “markets” is to be construed broadly, and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. The rule text notes that this expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

Finally, identical to Phlx General 9, Section 11, the Exchange provides that a Member's duty to provide best execution in any transaction “for or with a customer of another broker/dealer” does not apply in instances when another broker/dealer is simply executing a customer order against the Member's quote. The duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. Identical to Phlx, this rule text is intended to draw a distinction between those situations in which the Member is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the Member's quote, as opposed to those circumstances in which the Member is accepting order

¹⁶ See proposed Options 9, Section 26(f). This rule text is identical to Phlx General 9, Section 11(f).

flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

Members are subject to this rule today by virtue of having public customers. Brokers with public customers are required to be members of FINRA; accordingly, adoption of these rules by ISE could be seen as unnecessary. However, ISE believes that the requirements of these rules are sufficiently important that they should be reinforced through explicit inclusion in its rules.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁸ 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, by adopting a best execution and interpositioning rule at Options 9, Section 26 to inform Members of their obligations with respect to their customers.

ISE's proposed Options 9, Section 26 seeks to make clear that a broker-dealer must seek to obtain for its customer orders the most favorable terms reasonably available under the circumstances, thereby protecting investors and general public. The proposal promotes just and equitable principles of trade by providing examples of reasonable diligence and identifying use of channeling and third parties that are and are not violative of the rule. ISE's interpretation of the term "market" or "markets" is intended to provide Members with context as to the scope of venues that must be considered in the furtherance of their best execution obligations. Finally, the

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

Exchange notes that the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the Member for the purpose of order handling and execution. Finally, the Exchange intends to harmonize ISE's rule with Phlx General 9, Section 11 which is identical to the proposed rule.

Members are subject to these rules today by virtue of having public customers. Brokers with public customers are required to be members of FINRA; accordingly, adoption of these rules by ISE could be seen as unnecessary. However, ISE believes that the requirements of these rules are sufficiently important that they should be reinforced through explicit inclusion in its 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.

The Exchange's proposal to adopt a new Options 9, Section 26, Best Execution and Interpositioning, does not impose an undue burden on competition as all Members that conduct business with the public would be subject to the proposed rule.

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 Act¹⁹ and subparagraph (f)(6) of Rule 19b-4 thereunder.²⁰

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:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-ISE-2025-43 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.

¹⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁰ 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.

All submissions should refer to file number SR-ISE-2025-43. This file number should be included on the subject line if email 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 (<https://www.sec.gov/rules/sro.shtml>). Copies of the filing will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-ISE-2025-43 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Sherry R. Haywood,

Assistant Secretary.

²¹ 17 CFR 200.30-3(a)(12).