

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-105511; File No. SR-NASDAQ-2026-039]

### **Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend NOM’s Rules in Connection with a Technology Migration**

May 18, 2026.

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 May 6, 2026, The Nasdaq Stock Market LLC (“Nasdaq” 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 various rules of the Nasdaq Options Market LLC (“NOM”) in connection with a technology migration.<sup>3</sup> Specifically, the Exchange proposes to amend rules at Options 1, Section 1, Definitions; Options 2, Section 3, which is currently reserved, Section 4, Obligations of Market Makers and Lead Market Makers, Section 5, Market Maker Quotations, and Section 6, Market Maker Orders; Options 3, Section 3, Minimum Increments; Options 3, Sections 7, Types of Orders and Order and Quote Protocols; Section 8, Opening and Halt Cross; Section 9, Trading Halts; Section 10, Order Book Allocation; Section

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

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

<sup>3</sup> NOM’s Re-Platform will commence on July 27, 2026. See <https://www.nasdaqtrader.com/MicroNews.aspx?id=OTU2026-2>.

15, Risk Protections; Section 17, Kill Switch; Section 18, Detection of Loss of Communication; Section 20, Nullification and Adjustment of Options Transactions including Obvious Errors; Section 22, Limitations on Order Entry; Section 23, Data Feeds and Trade Information; and Section 28, Optional Risk Protections. The Exchange also proposes to amend Options 4A, Section 11 Trading Sessions; Options 4C, Section 2, Definitions; Options 5, Section 4, Order Routing; Options 6, Section 1, Authorization to Give-Up; Options 6B, Section 1, Exercise of Options Contracts; and Options 7, Section 1, General Provisions, and Section 3 Nasdaq Options Market - Ports and Other Services.

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

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

In connection with a technology migration to an enhanced Nasdaq, Inc. ("Nasdaq") functionality which will result in higher performance, scalability, and more robust architecture, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq affiliate exchanges. As further discussed below, the Exchange proposes to adopt such functionality

substantially in the same form as currently on the Nasdaq affiliated options exchanges, while retaining certain intended differences between it and its affiliates. The Exchange also proposes a number of changes to memorialize existing functionality, add more granularity in its rules to describe how existing functionality operates today, and to harmonize the Exchange's rules where appropriate with the rules of its affiliated options exchanges by using consistent language to describe identical functionality.

Specifically, the Exchange proposes to amend various rules of the Nasdaq Options Market LLC ("NOM") in connection with a technology migration to adopt rules on Nasdaq NTX Options, Inc. ("NTX Options") and Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX"), Nasdaq MRX, LLC ("MRX"), and Nasdaq Phlx LLC ("Phlx").

The Exchange proposes to permit Lead Market Maker appointments similar to NTX Options. The Exchange proposes to amend Options 2, Section 3 (currently reserved), and 4 (Obligations of Market Makers and Lead Market Makers) to adopt rules related to a Lead Market Maker that are identical to NTX Options at Options 2, Sections 3, 4 and 5. The Exchange would also add a definition for a Lead Market Maker in Options 1, Section 1 (Definitions), identical to NTX Options at Options 1, Section 1.

The Exchange proposes to amend Options 3, Section 3, Minimum Increments, to amend the manner in which quotes are submitted to the System.

The Exchange proposes to adopt order types at Options 3, Section 7 (Types of Orders and Order and Quote Protocols) that are identical to ISE, GEMX, MRX and Phlx with one exception. The Exchange proposes to adopt a new Stop Order, Stop Limit Order, Reserve Order and Good-Till-Date Order identical to ISE, GEMX, MRX and Phlx. The Exchange would retain NOM's Add Liquidity Order, which would be substantially similar to ISE, GEMX, MRX and Phlx

except with respect to re-pricing as explained below in more detail. The Exchange would also retain its Price Improving Order without change.<sup>4</sup> The Exchange would remove the Minimum Quantity Order. The Exchange would also amend Options 2, Section 6 (Market Maker Orders), Options 3, Section 8 (Opening and Halt Cross), Options 3, Section 9 (Trading Halts), Options 3, Section 10 (Order Book Allocation), Options 3, Section 20 (Nullification and Adjustment of Options Transactions including Obvious Errors), and Options 3, Section 22 (Limitations on Order Entry) to account for new order types. These proposed changes would be identical to corresponding rules on ISE, GEMX, MRX and Phlx at Options 2, Section 6, Options 3, Section 8, Options 3, Section 9, Options 3, Section 10, and Options 3, Section 22.

The Exchange proposes to amend its opening at Options 3, Section 8 to adopt an opening that would be identical to NTX Options at Options 3, Section 8.

The Exchange proposes to amend its allocation methodology in Options 3, Section 10 to provide for a Lead Market Maker enhancement and an entitlement for orders of 5 contracts or fewer identical to NTX Options at Options 3, Section 10.

The Exchange proposes to align certain risk protections in Options 3, Section 15 (Risk Protections) so that those protections in that rule are identical to NTX Options at Options 3, Section 15.

The Exchange proposes to amend its QUO protocol to no longer treat orders as quotes and permit two-sided orders to be entered through the protocol subject to order entry protections. As amended, the QUO protocol would be identical to the OTTO protocol on NTX Options, ISE,

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<sup>4</sup> A “Price Improving Order” is an order to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. See current NOM Options 3, Section 7(a)(5). The Exchange proposes to relocate its Pricing Improving Order as described in this proposal.

GEMX, MRX and Phlx. The Exchange would also align the Kill Switch at Options 3, Section 17, and Detection of Loss at Options 3, Section 18 so that the rule text is identical to NTX Options at Options 3, Sections 17 and 18.

The Exchange proposes to amend Options 3, Section 23, Data Feeds and Trade Information, to remove TradeInfo to align NOM's protocols to other Nasdaq affiliated markets.

The Exchange proposes to adopt an Optional Risk Protection at new Options 3, Section 28 that is identical to NTX Options, ISE, GEMX, MRX and Phlx.

The Exchange proposes to amend Options 5, Section 4, Order Routing, to adopt identical order routing to NTX Options at Options 5, Section 4, except with respect to the System handling of Price Improving Orders.<sup>5</sup> Each rule change is described below.

At the outset, the Exchange notes that unlike other Nasdaq affiliated options exchanges, Price Improving Orders only are being offered on NOM. Price Improving Orders are entered in increments smaller than the minimum price variation. Because NOM may accept orders in increments smaller than the minimum price variation, the rule text will differ in certain places as compared to the rule text of Nasdaq affiliated options exchanges. The Exchange has noted those distinctions in its proposal.

### **Options 1, Section 1**

The Exchange proposes to amend Options 1, Section 1, Definitions, to define the term "Lead Market Maker" at proposed Options 1, Section 1(a)(24) to mean a Market Maker who is registered as an options Lead Market Maker pursuant to Options 2, Section 3. The Exchange also proposes to renumber current Options 1, Section 1(a)(24) to (62). As a result of this renumbering, the Exchange proposes to also amend Options 4C. Sections 2(b)(2), and Options 7,

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<sup>5</sup> Unlike NOM, NTX Options does not offer Price Improving Orders.

Section 1, General Provisions, to amend the cross citations to align to the new numbering in Options 1, Section 1.

The Exchange proposes to amend current Options 1, Section 1(a)(57) to add “Tuesday” and “Thursday” to the definition in the first sentence. Today, the series are opened for trading each day of the week and expire each day of the week. The addition of Tuesday and Thursday were inadvertently not made a second time in that sentence.<sup>6</sup>

### **Lead Market Makers**

NOM proposes to permit NOM Market Makers to act as Lead Market Makers, or “LMMs,” in one or more options classes, provided the LMM meets certain obligations and quoting requirements as provided for in the new proposed rules which are described below. The Exchange also proposes to provide assigned LMMs with certain participation entitlements in Options 3, Section 10, which is described in that section.

### ***Options 2, Section 3***

At this time, the Exchange proposes to permit the appointment of LMMs on NOM. The Exchange proposes to amend Options 2, Section 3, which is currently reserved to title the rule “Lead Market Maker Allocation.” This proposed new rule would be identical to NTX Options at Options 2, Section 3.

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<sup>6</sup> See Securities Exchange Act Release No. 96412 (November 30, 2022), 87 FR 74685 (December 6, 2022) (SR-NASDAQ-2022-066) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Definition of Short Term Option Series).

As proposed, approved NOM Options Market Makers<sup>7</sup> may become Lead Market Makers (LMMs”). Only one LMM may be allocated to an options class.<sup>8</sup> Initial application(s) to become an LMM shall be in a form and/or format prescribed by the Exchange and shall include the following: (1) background information on the LMM including experience in trading options; (2) the LMM’s clearing arrangements; (3) adequacy of capital; and (4) adherence to Exchange rules and ability to meet obligations of an LMM.<sup>9</sup> Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein, including, but not limited to, an account of the abilities and background of the applicant as well as any other special requirements that the Exchange may require.<sup>10</sup> Once an applicant is approved by the Exchange as an LMM, any material change in capital shall be reported in writing to the Exchange within two business days after the change.<sup>11</sup> NOM will not place any limit on the number of entities that may become LMMs, however there will only be one LMM per class.

When an options class is to be allocated or reallocated by the Exchange, the Exchange will solicit applications from all eligible LMMs. If the Exchange determines that special qualifications should be sought in the successful applicant, it shall indicate such desired qualifications in the notice.<sup>12</sup>

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<sup>7</sup> The term “Nasdaq Options Market Maker” or “Options Market Maker” or “Market Maker” mean 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)(27).

<sup>8</sup> See proposed Options 2, Section 3, A at subparagraph (a).

<sup>9</sup> See proposed Options 2, Section 3, A at subparagraph (b).

<sup>10</sup> See proposed Options 2, Section 3, A at subparagraph (c).

<sup>11</sup> See proposed Options 2, Section 3, A at subparagraph (d).

<sup>12</sup> See proposed Options 2, Section 3, B at subparagraph (a).

Further, the Exchange proposes to require an allocation application to be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name and background of the LMM, the LMM's experience and capitalization demonstrating an ability to trade the particular options class sought, and any other reasons why the LMM believes it should be assigned or allocated the security. In addition, the Exchange may also require that the application include other information such as system acceptance/execution levels and guarantees. The Exchange may re-solicit applications for any reason, including if it determines that its initial solicitation resulted in an insufficient number of applicants.<sup>13</sup>

Allocation decisions and automatic allocations shall be communicated in writing to Exchange Participants. Once the LMM is allocated an issue, such LMM shall immediately notify the Exchange in writing of any change to the respective system acceptance/execution levels or any other material change in the application for any assigned issue. If an LMM seeks to withdraw from allocation in a security, it should notify the Exchange at least one business day prior to the desired effective date of such withdrawal.<sup>14</sup>

Options on Related Securities shall be automatically allocated to the LMM, which is already the LMM in Currently Allocated Securities (as defined hereafter). As noted herein, only one LMM may be allocated to an options class. The Exchange is defining the term "Related Securities" for purpose of Options 2, Section 3 as follows: "Related Securities means, but is not limited to: securities of a partially or wholly owned subsidiary; securities that are convertible into the securities of the issuer; warrants on securities of the issuer; securities issued in connection with a name change; securities issued in a reverse stock split; contingent value rights; "tracking"

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<sup>13</sup> See proposed Options 2, Section 3, B at subparagraph (b).

<sup>14</sup> See proposed Options 2, Section 3, B at subparagraph (c) – (e).

securities designed to track the performance of the underlying security or corporate affiliate thereof; securities created in connection with the merger or acquisition of one or more companies; securities created in connection with a “spin-off” transaction; convertible on non-convertible senior securities; and securities into which a listed security is convertible, where such Related Securities emanate from or are related to securities underlying options that are currently allocated to a LMM on the Exchange (“Currently Allocated Options”). The term Related Securities does not include Exchange Traded Funds.<sup>15</sup> Options on Related Securities (“Related Options”) shall be automatically allocated to the LMM that is already the LMM in Currently Allocated Options.<sup>16</sup>

The Exchange shall allocate new options classes or reallocate existing options classes to applicants based on the results of such factors as the Exchange deems appropriate. Among the factors that the Exchange may consider in making such decisions are: the number and type of securities in which applicants are currently registered; the capital and other resources of the applicant; recent allocation decisions within the past eighteen months; the desirability of encouraging the entry of new LMMs into the Exchange's market; order flow commitments; any prior transfers of LMM privileges by the applicant and the reasons therefore and such policies as the Board instructs the Exchange to follow in allocating or reallocating securities. The Exchange may also consider the following: quality of markets data; observance of ethical standards and administrative responsibilities. Solely with respect to options class allocations or reallocations, past or contemplated voluntary delisting of options by LMMs, done in the best interest of the Exchange, will not be viewed negatively by the Exchange in making allocation and reallocation

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<sup>15</sup> See proposed Options 2, Section 3, B at subparagraph (f).

<sup>16</sup> See proposed Options 2, Section 3, B at subparagraph (g).

decisions. The Exchange is empowered to allocate option classes for a limited period of time or subject to such other terms and conditions as it deems appropriate.<sup>17</sup>

Requests to allocate or transfer allocation, or transfer of an options class request must be made in writing to the Exchange, and such transfer may only be made to an approved LMM. The LMM shall be assigned to an options class for a period defined by the Exchange. The Exchange will communicate such period in solicitation applications (notices). The Exchange may re-allocate an options class after the defined period has expired.<sup>18</sup>

*Options 2, Section 4*

The Exchange proposes amendments to Options 2, Section 4, Obligations of Market Makers and Lead Market Makers, to require LMM's to be held to certain obligations. The proposed amendments to Options 2, Section 4 are identical to rule text at NTX Options at Options 2, Section 4.

As proposed, the Exchange requires that LMM transactions should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no LMM should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.<sup>19</sup> Further, with respect to each class of options in his or her appointment, an LMM is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, an LMM is expected to perform certain activities

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<sup>17</sup> See proposed Options 2, Section 3, C at subparagraph (a).

<sup>18</sup> See proposed Options 2, Section 3, D at subparagraph (a).

<sup>19</sup> See proposed Options 2, Section 4(e). The Exchange proposes to reserve Options 2, Section 4(d).

in the course of maintaining a fair and orderly market which are listed in proposed Options 2, Section 4(f)(1)-(4). The Exchange proposes to require that an LMM (1) compete with other Market Makers to improve the market in all series of options classes to which the LMM is appointed; (2) make markets that will be honored for the number of contracts entered into the System<sup>20</sup> in all series of options classes within the LMM's appointment; (iii) update market quotations in response to changed market conditions in all series of options classes within the LMM's appointment; (iv) maintain certain intra-day bid/ask differentials, also known as Quote Spread Parameters. The Quote Spread Parameters shall require LMMs to quote equity options, including Exchange-Traded Fund Shares, and index options with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid.<sup>21</sup> However, an LMM shall be permitted to quote an in-the-money series, where the market for the underlying security is wider than \$5, with a bid/ask differential as wide as the spread between the national best bid and offer in the underlying security. The Exchange may establish differences other than the above for one or more series or classes of options.<sup>22</sup>

In classes of options other than those to which the LMM is appointed, LMMs should not engage in transactions for an account in which they have an interest that are disproportionate in relation to, or in derogation of, the performance of their obligations as specified in this Rule with

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<sup>20</sup> The term "System" or "Trading System" mean the automated system for order execution and trade reporting owned and operated by The Nasdaq Options Market LLC. The Nasdaq Options Market comprises: (1) an order execution service that enables Participants to automatically execute transactions in options series; and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment; (2) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and (3) the data feeds described in Section 19. See Options 1, Section 1(a)(59).

<sup>21</sup> See proposed Options 2, Section 4(f)(1)-(4).

<sup>22</sup> See proposed Options 2, Section 4(f)(4). The Exchange proposes to reserve Options 2, Section 4(g).

respect to the classes in their appointment. Furthermore, LMMs should not: (1) individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; and (2) effect purchases or sales on the Exchange except in a reasonable and orderly manner.<sup>23</sup>

LMMs are prohibited from the following: (1) any practice or procedure whereby LMMs trading any particular option issue determine by agreement the spreads or option prices at which they will trade that issue; and (2) any practice or procedure whereby LMMs trading any particular option issue determine by agreement the allocation of orders that may be executed in that issue.<sup>24</sup>

With respect to quoting obligations, an LMM must enter two-sided quotations. An LMM that enters a bid (offer) in a series of an option in which he is registered on NOM must enter an offer (bid), except in an assigned options series listed intra-day on NOM. These quotations must meet the legal quote width requirements specified in Options 2, Section 4 subsection (f)(4). An Options Participant will be required to meet each market making obligation separately. Quotes submitted through the Specialized Quote Feed<sup>25</sup> interface, utilizing badges<sup>26</sup> and options series

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<sup>23</sup> See proposed Options 2, Section 4(h).

<sup>24</sup> See proposed Options 2, Section 4(i).

<sup>25</sup> “Specialized Quote Feed” or “SQF” is an interface that allows Market Makers to connect, send, and receive messages related to quotes and Immediate-or-Cancel Orders 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; and (8) opening imbalance messages. 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. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1) and (a)(2), and (b)(2), respectively. See Options 3, Section 7(e)(1)(B).

<sup>26</sup> The term a “badge” means an account number, which may contain letters and/or numbers, assigned to NOM Market Makers. A NOM Market Maker account may be associated with multiple badges. See NOM Options 1, Section 1(a)(5).

assigned to a Lead Market Maker, will be counted toward the requirement to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as NOM may announce. 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 option 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.<sup>27</sup>

LMMs, 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 NOM may announce in advance, for which that Option Participant's assigned options series are open for trading. An LMM 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 for options on equities and exchange-traded funds (“ETFs”) or with an expiration of twelve months or greater for index options. However, an LMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Options 3, Section 10.<sup>28</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 or “ETFs” (“Adjusted Options Series”).<sup>29</sup>

Specifically, the Exchange will calculate subparagraph (j)(1) by (i) taking the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of

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<sup>27</sup> See proposed Options 2, Section 4(j).

<sup>28</sup> See proposed Options 2, Section 4(j)(1).

<sup>29</sup> See proposed Options 2, Section 4(j)(1)(a).

twelve months or greater for index options; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.<sup>30</sup>

**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.

Further, the below example explains how the Exchange aggregates quotes from Lead Market Makers, in their assigned options series, to determine compliance with quoting requirements. The same calculation applies to quotes from Market Makers in their assigned options series. NTX Options aggregates and calculates quotes from Lead Market Makers in an identical manner.<sup>31</sup>

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

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

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<sup>30</sup> See proposed Options 2, Section 4(j)(2).

<sup>31</sup> See NTX Options at Options 2, Section 4(j) and Options 2, Section 5(d)(1).

Badge 124A, B and C are 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%.

NOM Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant compliance with this Rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.<sup>32</sup>

If a technical failure or limitation of a System of the Exchange prevents an LMM from maintaining, or prevents an LMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the LMM has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this intra-day electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.<sup>33</sup>

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<sup>32</sup> See proposed Options 2, Section 4(j)(3).

<sup>33</sup> See proposed Options 2, Section 4(j)(4).

An LMM may be called upon by NOM Regulation to submit a single quote or maintain intra-day quotes in one or more series of an option issue within its appointment whenever, in the judgment of NOM Regulation, it is necessary to do so in the interest of maintaining fair and orderly markets.<sup>34</sup> An LMM will be compelled to buy/sell a specified quantity of option contracts at the disseminated bid/offer pursuant to his obligations with respect to firm quotes.<sup>35</sup> All quotes and orders entered into the System by Options Participants are firm under Options 2, Section 4 and Rule 602 of Regulation NMS under the Exchange Act (“SEC Rule 602”) for the number of contracts specified and according to the size requirements set forth herein. Market Maker bids and offers are not firm under this Rule and SEC Rule 602: (1) for the period prior to the Opening Cross; or (2) if any of the circumstances provided in paragraph (b)(3) or (c)(4) of SEC Rule 602 exist.<sup>36</sup>

*Options 2, Section 5*

With the adoption of LMMs, the Exchange proposes to add rule text to Options 3, Section 5(d)(1) to provide,

An Options Participant will be required to meet each market making obligation separately. Quotes submitted through the Specialized Quote Feed interface, utilizing badges and options series assigned to a Market Maker, will be counted toward the requirement to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as NOM may announce. 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 option 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.

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<sup>34</sup> See proposed Options 2, Section 4(k).

<sup>35</sup> See proposed Options 2, Section 4(l).

<sup>36</sup> See proposed Options 2, Section 4(l).

Similar to NTX Options,<sup>37</sup> the Exchange proposes to make clear that the quoting requirements for a Market Maker and a Lead Market Maker are separate obligations. Further, the Exchange proposes a technical requirement at Options 2, Section 5(d)(1)(A) to define an ETF and an amendment to Options 2, Section 5(d)(1)(D) to correct the cross reference from “subparagraph A” to “paragraph d.”

*Options 3, Section 10*

The Exchange proposes to provide LMM participation entitlements in Options 3, Section 10, Order Book Allocation. As noted herein, an LMM may be assigned by the Exchange in each option class in accordance with Options 2, Section 3.

With respect to Price/Time, whereby the System executes all trading interest at the best price level within the System before executing trading interest at the next best price, the Exchange proposes to note that allocation of displayed interest shall occur before allocation of non-displayed interest at each price level.

Specifically, with respect to Size Pro-Rata executions, after all Public Customer<sup>38</sup> orders have been fully executed, upon receipt of an order, provided the LMM’s quote is at or improves on the better of the NBBO or internal BBO, the LMM will be afforded a participation entitlement as noted below.<sup>39</sup> The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the Opening Process. A NOM Options LMM shall receive

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<sup>37</sup> See NTX Options at Options 2, Section 5(d)(1).

<sup>38</sup> As proposed herein at renumbered Options 1, Section 1(a)(49), the term “Public Customer” means a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Options 1, Section 1(a)(48).

<sup>39</sup> Public Customer non-displayed orders will retain price priority before an LMM participation entitlement is provided at the Exchange’s disseminated price. (e.g. Price Improving Orders and Reserve Orders).

the greater of: (i) the LMM's Size Pro-Rata; (ii) 50% of remaining interest if there is one other Market Maker order or quote at that price; (iii) 40% of remaining interest if there are two other Market Maker orders or quotes at that price; or (d) 30% of remaining interest if there are more than two other Market Maker orders or quotes at that price. Rounding will be to the nearest integer. The Exchange is not considering Public Customer orders in determining the LMM allocation because Public Customer orders will continue to have priority over all other interest at the same price and those orders would have been executed prior to any LMM allocation. NTX Options has identical rules at Options 3, Section 10(a)(2)(ii).

The Exchange also proposes to provide an Entitlement for Orders of 5 contracts or fewer in addition to the LMM Priority overlay at Options 3, Section 10(a)(1)(C)(3) that states,

This Entitlement for Orders of 5 contracts or fewer shall be allocated to the LMM as described below. The allocation will only apply after the Opening Process. An LMM is not entitled to receive a number of contracts that is greater than the size that is associated with its quote. On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to LMMs, and will reduce the size of the orders included in this provision if such percentage is over 40%.

(A) An LMM is entitled to priority with respect to Orders of 5 contracts or fewer if the LMM has a quote at the better of the internal BBO or the NBBO, with no other Public Customer interest with a higher priority.

(B) If the LMM's quote is at the better of the internal BBO, or the NBBO, with other Public Customer interest, a LMM is not entitled to priority with respect to Orders of 5 contracts or fewer, however the LMM is eligible to receive such contracts pursuant to paragraph (a)(1)(C)(4); thereafter orders will be allocated pursuant to paragraph (a)(1)(C)(5).

In order to be entitled to receive Orders for 5 contracts or fewer, the LMM's quote must be at the better of the internal BBO<sup>40</sup> or the NBBO with no other Public Customer interest which has a

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<sup>40</sup> The "internal BBO" refers to the Exchange's non-display order book. See Options 3, Section 4(b)(7).

higher priority. If the LMM is quoting at the better of the internal BBO or the NBBO with other Public Customer Maker interest present which has a higher priority at the time of execution, the LMM is not entitled to priority with respect to Orders of 5 contracts or fewer, however the LMM is eligible to receive such contracts pursuant to paragraph (a)(1)(C)(4), which describes Market Maker Priority after all Public Customer orders and LMM participation entitlements have been applied, and, thereafter, (a)(1)(C)(5) which provides for allocation of all other remaining interest after Market Maker interest has been fully executed. The Lead Market Maker would be entitled to the entire allocation of the Order of 5 contracts or fewer where no Public Customer interest was present with a higher priority. If, for example, a Public Customer is resting at the NBBO at the time of execution, a Lead Market Maker is not entitled to priority with respect to Orders of 5 contracts or fewer. The Lead Market Maker will continue to not be entitled to priority with respect to allocation of Orders of 5 contracts or fewer because there is interest present with a higher priority or because the Lead Market Maker is not quoting at the NBBO. In these situations, the Lead Market Maker is eligible to receive such contracts pursuant to paragraph (a)(1)(C)(4); thereafter orders will be allocated pursuant to paragraph (a)(1)(C)(5). NTX Options has identical rule text at Options 3, Section 10(a)(2)(iii).

The Exchange proposes to add the word “order” before “Book” and lowercase “book” at Options 3, Section 10(a)(3).

### **Options 2, Section 6**

Options 2, Section 6(a) currently states that Market Makers may enter all order types defined in Options 3, Section 7 in the options classes to which they are appointed and non-appointed.

The Exchange proposes to adopt a new Reserve Order at proposed Options 3, Section 7(g) that is identical to Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”) Reserve Orders at Options 3, Section 7(g). The Exchange proposes to amend Options 2, Section 6(a) to restrict Market Makers from entering Reserve Orders in both appointed and non-appointed options classes. Today, ISE, GEMX and MRX Options 2, Section 6 only restricts Market Makers from entering Reserve Orders. Unlike other order types, the Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. The Exchange believes that because a Reserve Order contains a non-displayed portion, Market Makers should not be permitted to enter this order type. Market Makers are required to make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange’s System in all series of options classes to which the market maker is appointed. The Exchange believes that Market Maker liquidity should be displayed liquidity and, therefore, proposes to amend Options 2, Section 6 by stating that Market Makers should not be permitted to enter Reserve Orders.

### **Options 3, Section 3**

The Exchange proposes to amend Options 3, Section 3(c) which currently states, “A quote submitted to the System with an invalid trading increment will be re-priced. The quote will be rounded up to the nearest valid minimum price variation for offers and rounded down for bids.” Today, the Exchange permits NOM Participants to enter quotes in sub-pennies. At this time, the Exchange proposes to no longer permit quotes to be submitted to the Exchange in sub-

pennies. Requiring quotes to be submitted in valid minimum price increments will standardize NOM to the behavior of other Nasdaq affiliated exchanges that do not permit quotes to be permitted in sub-pennies.<sup>41</sup> All other Nasdaq affiliated exchanges require quotes to be submitted in minimum price increments.<sup>42</sup> As a result of this System change, any quote submitted in a sub-penny would be rejected by the System as a result of the technology migration.

Further, the Exchange proposes to amend the current text of Options 3, Section 3(c) to add that those quotes are displayed at the nearest minimum price variation. Today, Options 3, Section 4(b)(6)<sup>43</sup> specifies that NOM displays quotes at the minimum price variation and the Exchange is adding that detail to Options 3, Section 3(c) as well. While quotes are accessible to be traded at the trading increment in which they are entered, the Exchange displays these quotes at the nearest minimum price variation.

### **Options 3, Section 7**

The Exchange proposes to remove “(a)” and move the rule text of Options 3, Section 7(a) after the first sentence.

### ***Market Orders***

The Exchange proposes to amend the description of Market Orders and relocate the order type from Options 3, Section 7(a)(4) to Options 3, Section 7(a) without any substantive change to the rule. Today, Options 3, Section 7(a)(4) states,

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<sup>41</sup> Other Nasdaq affiliated exchanges require quotes to be submitted in minimum price increments.

<sup>42</sup> See ISE, GEMX, MRX and Phlx Options 3, Section 3.

<sup>43</sup> Options 3, Section 4(b)(6) provides that, 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 offer (for bids) or the current national best bid (for offers) as non-displayed and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

A Market Order is an order to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant, once an option series has opened for trading. Market Orders on the Order Book would be immediately cancelled if an options series halted, provided the Participant designated the cancellation of Market Orders.

The Exchange proposes to instead provide that,

A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant, once an options series has opened for trading. Market Orders on the order book would be immediately cancelled if an options series is halted, provided the Participant designated the cancellation of Market Orders.

The Exchange's amendment to the first sentence does not substantively amend this order type, rather the text is being reworded to align to ISE, GEMX and MRX rule text at Options 3, Section 7(a).

### ***Limit Orders***

The Exchange proposes to amend and relocate "Limit Orders" from current Options 3, Section 7(a)(2) to proposed Options 3, Section 7(b). Today, Options 3, Section 7(a)(2) states, "Limit Order" is an order to buy or sell an option at a specified price or better. A marketable Limit Order is a Limit Order to buy (sell) at or above (below) the best offer (bid) on the Exchange. The Exchange proposes to slightly modify the text in a non-substantive matter to align to ISE, GEMX and MRX Options 3, Section 7(b) with respect to the description of a Limit Order and a Marketable Limit Order to provide at proposed Options 3, Section 7(b) that a Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. The Exchange proposes to state at Options 3, Section 7(b)(1) that a Marketable Limit Order is a limit order to buy (sell) at or above (below) the best offer (bid) on the Exchange. The Exchange proposes to define a Fill-or-Kill Orders as a Limit Order that is to be executed in its entirety as

soon as it is received and, if not so executed, treated as cancelled similar to ISE, GEMX and MRX Options 3, Section 7(b)(2).

The Exchange proposes to amend and relocate the Intermarket Sweep Order from current Options 3, Section 7(a)(7) to proposed Options 3, Section 7(b)(3) under Limit Orders. Current Options 3, Section 7(a)(7) states

“Intermarket Sweep Order” or “ISO” is a Limit Order that meets the requirements of Options 5, Section 1(8). Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the Order Book. ISOs may have any time-in-force designation and are handled within the System pursuant to Options 3, Section 10 and shall not be eligible for routing as set out in Options 5, Section 4. ISO Orders may not be submitted during the opening.

The relocated rule text is substantively identical, except the Exchange is removing the sentence that state, “ISOs may be entered on the Order Book” and “...are handled within the System pursuant to Options 3, Section 10 and shall not be eligible for routing as set out in Options 5, Section 4.” Since all orders may be entered on the Order Book, the sentence is not necessary. Further, all orders are subject to the allocation process in Options 3, Section 10. Also, ISO orders shall not be routable, as specified in Options 5, Section 4, and these orders meet the requirements of Options 5, Section 1(8). The Exchange’s proposal aligns NOM’s rule text for ISO Orders with that of ISE, GEMX and MRX at Options 3, Section 7(b)(3).

#### ***All-or-None Orders***

The Exchange proposes to amend and relocate the All-or-None Orders or “AON” Orders from current Options 3, Section 7(a)(8) to proposed Options 3, Section 7(c). Current Options 3, Section 7(a)(8) provides that an

“All-or-None Order” is a Market or Limit Order which is to be executed in its entirety or not at all. All-or-None Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-None Orders received prior to the Opening Process or after market close will be rejected.

The Exchange proposes to add a new sentence which states that AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. This is true for NOM today. The handling of AONs as described in the proposed rule text in Options 3, Section 7(c) is consistent with the Exchange’s allocation methodology in Options 3, Section 10. The additional detail makes clear that because of the size contingency of AON Orders, those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Additionally, the rule text will be harmonized to ISE, GEMX and MRX Options 3, Section 7(c). The Exchange also proposes to amend the sentence that states, “All-or-None Orders received prior to the opening cross or after market close will be rejected” to harmonize the rule text to ISE, GEMX and MRX Options 3, Section 7(c). The Exchange proposes to modify this sentence to instead provide that AON Orders may not be submitted during the Opening Process.<sup>44</sup> The current rule text similarly prohibits the submission of AON Orders before the market opens, which occurs at the end of the Opening Process.

### ***Stop Orders***

The Exchange proposes to adopt a Stop Order on NOM at proposed Options 3, Section 7(d). The Exchange proposes to describe a Stop Order as an order that becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders may only be entered

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<sup>44</sup> NOM’s amended Opening Process is described in Options 3, Section 8.

through FIX. A Stop Order shall not be elected by a trade that is reported late or out of sequence.<sup>45</sup>

The Exchange also proposes to adopt a Stop Limit Order at proposed Options 3, Section 7(e). The Exchange proposes to provide that a Stop Limit Order is an order that becomes a Limit Order when the stop price is elected. A Stop Limit Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Limit Order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. Stop Limit Orders may only be entered through FIX. A Stop Limit Order shall not be elected by a trade that is reported late or out of sequence.

A Stop Order is not elected by a trade that is reported late to ensure systemically that a Stop Order would be elected by the execution price at the actual time of the execution, instead of at a later time. Absent this provision, it would be possible for a Stop Order to be elected by a trade that is reported late, which could result in such Stop Order being converted into a Market Order or a Limit Order and, in the case of a Stop Order executed at a significantly different price than the election price of the Stop Order.<sup>46</sup>

### ***Cancel or Replace Orders***

The Exchange proposes to rename the “Cancel-Replacement Order” as a “Cancel or Replace Order” and amend and relocate the proposed Cancel and Replace Order description

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<sup>45</sup> ISE and MRX Options 3, Section 7(c) also provide that a Stop Order is not elected by a Complex Order trading with another Complex Order. NOM currently does not offer Complex Orders, therefore it is not adding this text.

<sup>46</sup> For example, if a Stop Order to sell at \$3.00 is elected by a trade reported late or out-of-sequence with an execution price of \$3.00 when the actual bid price at the time of the report is \$1.00, the Stop Order would be converted into a market order and executed at \$1.00.

from Options 3, Section 7(a)(1) to proposed Options 3, Section 7(f). Currently, Options 3, Section 7(a)(1) states,

“Cancel-Replacement Order” is a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, and the size is not increased.

The Exchange proposes to modify the Cancel and Replace Order so that it is identical to the functionality on ISE, GEMX and MRX at Options 3, Section 7(f) by stating,

Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size is not increased. In the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System’s price or other reasonability checks (e.g., Order Price Protection and Market Order Spread Protection within Options 3, Section 15(a)(1) and (a)(2), respectively); the existing order shall be cancelled and not replaced.

The Exchange is not proposing to substantively amend the description of a Cancel and Replace Order, except that the Exchange proposes to introduce Reserve Orders, as explained below. The Exchange proposes to state that in the case of Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. Because a Reserve Order has both a displayed and non-displayed portion, this additional language makes clear the System handling for this order type. Also, the Exchange proposes to add language to provide that if the replacement portion of a Cancel and Replace Order does not satisfy the System’s price

or other reasonability checks (e.g. Order Price Protection and Market Order Spread Protection within Options 3, Section 15(a)(1) and (a)(2), respectively); the existing order shall be cancelled and not replaced. The Limit Order Price Protection and Market Order Spread Protection are the only risk protections within Options 3, Section 15 (Risk Protections) that are applicable. Price or other reasonability checks consider the current market at the time the Cancel and Replace Order is entered. The Exchange proposes to begin applying price or other reasonability checks to all Cancel and Replace Orders, similar to ISE, GEMX and MRX, to provide market participants with additional risk protection checks with the re-entry of the Cancel and Replace Order. This proposed rule is similar to ISE, GEMX and MRX Rules at Options 3, Section 7 at Supplementary Material .02. All risk protections are noted within Options 3, Section 15. Those risk protections apply throughout the Rulebook, except where otherwise noted. Finally, the Exchange is also proposing to remove the phrase “...with new terms and conditions” to harmonize the rule text to that of ISE, GEMX and MRX at Options 3, Section 7(f).

### ***Reserve Orders***

The Exchange proposes to adopt a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g). As proposed, a Reserve Order would be a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order would be available for potential execution against incoming marketable orders. A non-marketable Reserve Order would rest on the order book. The displayed portion of a Reserve Order would be ranked at the specified limit price and the time of order entry. The displayed portion of a Reserve Order would trade in accordance with Options 3, Section 10(a)(1)(C)(1)(a) or Options 3, Section 10(a)(2)(i) for Public Customer Orders and Options 3, Section 10(a)(1)(C)(1)(d) or Options 3,

Section 10(a)(2)(iv) or (v) for non-Public Customer Orders. Reserve Orders would be entered with an instruction for the displayed portion of the order to be refreshed: (A) upon full execution of the displayed portion or upon any partial execution; and (B) up to the initial size of the displayed portion or with a random refresh quantity within a range determined by the Participant. When the displayed portion of a Reserve Order is decremented, either in full or in part, it would be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion would include the previously displayed portion. Upon any refresh, the entire displayed portion would be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion would trade in accordance with Options 3, Section 10(a)(1)(C)(1)(a) and 10(a)(1)(C)(2)(i) for Public Customer Orders, and Options 3, Section 10(a)(1)(C)(1)(d) and 10(a)(1)(C)(2)(iv) and (v) for non-Public Customer Orders. The initial non-displayed portion of a Reserve Order rests on the order book and would be ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion as described in proposed Options 3, Section 7(g)(5). The non-displayed portion of any Reserve Order would be available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order would trade in accordance with Options 3, Section 10(a)(1)(C)(1)(a) and 10(a)(1)(C)(2)(i) for Public Customer Orders, and Options 3, Section 10(a)(1)(C)(1)(d) and 10(a)(1)(C)(2)(iv) and (v) for non-Public Customer Orders. The Exchange believes that the adoption of this new order type will allow all Participants the ability to trade their orders with displayed and non-displayed portions similar to ISE, GEMX and MRX Options 3, Section 7(g).

### ***Price Improving Orders***

The Exchange proposes to relocate Price Improving Orders from current Options 7, Section (a)(5) to proposed Options 3, Section 7(m) without change.

### ***Add Liquidity Orders***

The Exchange proposes to relocate the Add Liquidity Order (“ALO”) from current Options 3, Section 7(a)(9)<sup>47</sup> to proposed Options 3, Section 7(n) and amend the current text to conform the rule text to Add Liquidity Orders on ISE, GEMX, MRX and Phlx except that NOM’s Add Liquidity Order will continue to reprice \$.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) unlike ISE, GEMX, MRX and Phlx. In contrast to NOM, ISE, GEMX, MRX and Phlx re-price to the minimum price variation 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. Further, unlike ISE, GEMX, MRX and Phlx, NOM does not offer auction functionality. NOM’s Add Liquidity Order would provide,

An Add Liquidity Order is 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.

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<sup>47</sup> An “Add Liquidity Order” is an order that will not remove liquidity from the System. Add Liquidity Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market. Add Liquidity Orders are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if an Add Liquidity Order would lock or cross an order on the System, the order will be re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers); and (ii) if a Add Liquidity Order would not lock or cross an order on the System but would lock or cross the NBBO as reflected in the protected quotation of another market center, the order will be handled pursuant to Options 3, Section 5(b) – (d). Participants may choose to have their Add Liquidity Orders returned whenever the order would lock or cross the NBBO or be placed on the order book at a price other than its limit price. Add Liquidity Orders received prior to the Opening Process will be eligible for execution during the Opening Process and will be processed as per Options 3, Section 8. Add Liquidity Orders received after market close will be rejected. Add Liquidity Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel. See NOM Options 3, Section 7(a)(9).

Participants may specify whether an Add Liquidity Order shall be cancelled or re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers) 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 \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if an Add Liquidity 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(c) and (d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading. Add Liquidity Orders may only have a time-in-force designation of Day.

The Exchange proposes to remove the rule text that states that Add Liquidity Orders will not remove liquidity from the System because this is evident from the title of the order type.

Further, the Exchange proposes to remove rule text that states that Add Liquidity Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market because this is the case for all order types. Also, the Exchange proposes to remove the rule text that states that Add Liquidity Orders are evaluated at the time of entry with respect to locking or crossing other orders and instead state provide that an Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange based on certain criteria. Identical to ISE, GEMX, MRX and Phlx the Exchange proposes to state that, "An Add Liquidity Order is 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." The Exchange proposes to retain rule text that describes repricing and also adopt rule text from ISE, GEMX, MRX and Phlx when next stating that,

Participants may specify whether an Add Liquidity Order shall be cancelled or re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers) 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 \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers). Notwithstanding the aforementioned, if an Add Liquidity 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(c) and (d). An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10. Add Liquidity Orders may only be submitted when an options series is open for trading. Add Liquidity Orders may only have a time-in-force designation of Day.

With this migration, Add Liquidity Orders received prior to the Opening Process will not be eligible for execution during the Opening. Add Liquidity Orders received after market close will be rejected similar to all other order types, so this language is being removed. The Exchange is removing the sentence that provides, "Participants may choose to have their Add Liquidity Orders returned whenever the order would lock or cross the NBBO or be placed on the order book at a price other than its limit price." Also, the citation to Options 3, Section 5(b)-(d) is being amended to Options 3, Sections (c) and (d). Options 3, Section 5(b) is not necessary, however Options 3, Sections (c) and (d) contain price improving order details relevant to re-pricing. Add Liquidity Orders may only have a time-in-force designation of Day because the proposed new text states that Add Liquidity Order shall be cancelled or re-priced. Finally, with this migration, Add Liquidity Orders may only have a time-in-force designation of Day. Today, Add Liquidity Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel. The Exchange has added a Good-Till-Date Time in Force with this

proposal, so at this time, the Exchange proposes to simply note that Add Liquidity Orders may only have a time-in-force designation of Day.

### ***Opening Sweep***

The Exchange proposes to adopt a new order type at proposed Options 3, Section 7(u), “Opening Sweep.” An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments and Market Wide Risk Protection. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b) and will be cancelled upon the open if not executed. The Exchange also proposes to amend the Opening Halt Cross at Options 3, Section 8 to describe the Opening Sweep in the proposed changes to that rule.

The Exchange proposes to reserve Options 3, Section 7(h), (i) - (l), and (o) - (t), and (v) – (z) which contain order types that are available on other Nasdaq affiliated options markets, but are not available on NOM which does not have auction order types or other order types available on other Nasdaq affiliated markets.

### ***Time in Force Provisions***

The Exchange proposes to relocate the rule text concerning Time in Force from current Options 3, Section 7(b)<sup>48</sup> to Supplementary Material .02 to Options 3, Section 7 without change.

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<sup>48</sup> Current NOM Options 3, Section 7(b) states, The term “Time in Force” or “TIF” shall mean the period of time that the System will hold an order for potential execution, and shall include:.

### ***Day Order***

The Exchange proposes to relocate a Day TIF from current Options 3, Section 7(b)(3)<sup>49</sup> to new to Supplementary Material .02(a) to Options 3, Section 7 without substantive change.

The minor proposed wording changes to the rule text of Day Order are intended to be identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(a) to Options 3, Section 7.<sup>50</sup>

### ***Good-Till-Cancelled***

The Exchange proposes to amend and relocate Good-Till-Cancelled from Options 3, Section 7(b)(4)<sup>51</sup> to proposed Supplementary Material .02(b) to Options 3, Section 7. The Exchange is not amending the System functionality of this order type. The Exchange proposes to amend the current rule text to instead provide that an order to buy or sell entered with a TIF of “GTC” remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The first sentence of the current text is simply worded differently; today GTC orders are canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The Exchange is adding this rule text concerning a corporate action to clarify the current System behavior. The proposed GTC description is identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(b) to Options 3, Section 7.

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<sup>49</sup> “DAY” is an order entered with a TIF of “Day” that expires at the end of the day on which it was entered, if not executed. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX. See NOM Options 3, Section 7(b)(3).

<sup>50</sup> NOM does not offer a Precise protocol similar to ISE and GEMX.

<sup>51</sup> Current NOM Options 3, Section 7(b)(4) states “Good Til Cancelled” or “GTC” is an order entered with a TIF of “GTC” that, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close.

### ***Good-Till-Date***

The Exchange proposes to adopt a new TIF designation, Good-Till-Date or “GTD” at Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX’s Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of “GTD,” which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD Orders will only be available on FIX, similar to ISE, GEMX and MRX Supplementary Material .02(c) to Options 3, Section 7. The Exchange believes this additional TIF will provide Participants with additional opportunities when trading on the Exchange.

### ***Immediate-or-Cancel***

The Exchange proposes to relocate Immediate-or-Cancel from Options 3, Section 7(c)(2)<sup>52</sup> to Supplementary Material .02(d) to Options 3, Section 7 with minor non-substantive wording amendments that are intended to align with rule text in ISE, GEMX and MRX Supplementary Material .02(d) to Options 3, Section 7. The Exchange would add “simple orders” to the end of the description.

### ***Opening Only***

The Exchange proposes to replace the “On the Open Order” time-in-force or “TIF” currently located at Options 3, Section 7(b)(1) with an “Opening Only” or “OPG” TIF, which

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<sup>52</sup> Current NOM Options 3, Section 7(b)(2) states (d) “Immediate-or-Cancel” or “IOC” is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled and/or routed pursuant to Participant's instruction. IOC orders may be entered through FIX, or SQF, provided that an IOC Order entered by a Market Maker through SQF is not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively. IOC Orders entered through SQF may not route.

can only be executed in the Opening Process pursuant to Options 3, Section 8. Currently, Options 3, Section 7(b)(1) provides,

“On the Open Order” or “OPG” shall mean for orders so designated, that if after entry into the System, the order is not fully executed in its entirety during the Opening Cross, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation.

The Exchange proposes to replace the On the Open Order with the following rule text describing an Opening Only TIF,

An Opening Only (“OPG”) order is entered with a TIF of “OPG.” This order can only be executed in the Opening Process pursuant to Options 3, Section 8. Any portion of the order that is not executed during the Opening Process is cancelled. OPG orders may not route. This order type is not subject to any protections listed in Options 3, Section 15, except Size Limitation and Market Wide Risk Protection.

Any portion of an Opening Only order that is not executed during the Opening Process would be cancelled. This order type would not be subject to any protections listed in Options 3, Section 15. Finally, the Exchange proposes to note that OPG orders may not route. This order type is identical to the OPG order in ISE, GEMX and MRX Supplementary Material .02(e) to Options 3, Section 7.

The Exchange is adding an italicized header to each order type to conform the format to that of ISE, GEMX and MRX Options 3, Section 7.

### ***Order Entry Protocols***

The Exchange proposes to relocate the order entry protocols from current Options 3, Section 7(e) to proposed Supplementary Material .03 to Options 3, Section 7. The Exchange proposes to re-letter the subsections from “A, B, and C” to “a, b, and c.” The Exchange proposes to remove the rule text that provides, “(e) Entry and Display of Orders and Quotes. Participants

may enter orders and quotes into the System as specified below” to align the rule text with ISE, GEMX and MRX Supplementary Material .03 to Options 3, Section 7.

The Exchange proposes to amend the FIX protocol to note that similar to ISE, GEMX and MRX at Supplementary Material .03(a) to Options 3, Section 7, that the Exchange will commence offering post trade allocation messages. A post trade allocation message allows market participants to specify how an order should be subdivided among one or more accounts.<sup>53</sup> Today, ISE, GEMX and MRX provide post trade allocation messages through FIX.<sup>54</sup>

The Exchange proposes to add the word “Protection” after “Size Limitation” for the SQF Protocol and re-letter the protocol from “B” to “c” within Supplementary Material .03 to Options 3, Section 7.

At this time, the Exchange proposes to rename “Quote Using Orders” or “QUO,”<sup>55</sup> to “Ouch to Trade Options” or “OTTO.” The Exchange also proposes to amend and relocate the protocol description to Supplementary Material .03(b) to Options 3, Section 7. Today, QUO permits Market Makers to connect, send and receive messages related to single-sided orders to and from the Exchange and those orders are treated as quotes. Similar to QUO, the OTTO protocol would include (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

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<sup>53</sup> For example, a member may specify the account(s) and their respective order quantities which make up the order.

<sup>54</sup> See ISE, GEMX and MRX Supplementary Material .03(a)(i) of Options 3, Section 7.

<sup>55</sup> QUO is an interface that allows NOM Market Makers to connect, send, and receive messages related to single-sided orders to and from the Exchange. Order Features include the following: (1) Options symbol directory messages (e.g., underlying); (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) order messages; and (6) risk protection triggers and cancel notifications. Orders submitted by NOM Market Makers over this interface are treated as quotes. See Options 3, Section 7(d)(1)(D).

action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; and (6) risk protection triggers and cancel notifications; and (7) post trade allocation messages.

The Exchange proposes to amend QUO so that the orders could be submitted as two-sided orders. Today, orders may only be submitted as single-sided orders. Further, the Exchange would no longer treat orders submitted by Market Makers over this interface as quotes, instead they would be viewed by the System as orders. The current functionality of QUO would otherwise remain the same. The Exchange would permit all NOM Participants to utilize the amended QUO functionality instead of only Market Makers. Because QUO would be for order submission, the Exchange would subject the orders to the Order Price Protection and Size Limitation in Options 3, Section 15(a)(1) and (b)(2) that are currently not being applied. SQF would continue to be available for Market Makers to enter quotes. The Exchange believes that this amended protocol will allow a greater number of market participants on NOM to utilize the protocol. This order entry protocol would be in addition to the FIX protocol currently offered for order entry. Additionally, as amended, the protocol would be identical to the OTTO protocol offered on all other Nasdaq affiliated options markets. The Exchange proposes to reserve Supplementary Material .03(d) to Options 3, Section 7.

### ***Routing***

The Exchange proposes to relocate the rule text at Options 3, Section 7(c)<sup>56</sup> to Supplementary Material .04 of Options 3, Section 7 and amend that rule text to provide “Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Options 5, Section 4 through FIX only.” The Exchange proposes to

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<sup>56</sup> Current NOM Options 3, Section 7(c) provides, Routing Strategies. Orders may be entered on the Exchange with a routing strategy of SEEK, SRCH or Do-Not-Route (“DNR”) as provided in Options 5, Section 4 through FIX only.

align NOM's routing options to that of all other Nasdaq affiliated options markets by offering FIND as a routing options in lieu of SEEK. The Exchange describes that amendment below under Routing.

### ***Order Size***

The Exchange is removing the sentence that provides, "The term "Order Size" shall mean the number of contracts up to 999,999 associated with the Order." This term is not utilized in the Exchanges rules.

### **Options 3, Section 8**

The Exchange proposes to amend NOM's Opening Process so that it would be identical to Nasdaq Texas, LLC's or "NTX Options" Opening Process at Options 3, Section 8.

In summary, the Exchange proposes to retain NOM's Valid Width NBBO requirements with respect to Opening With a Trade pursuant to proposed Options 3, Section 8(i) and (j). The Exchange's proposal would maintain NOM's ability to open with a BBO (no trade) pursuant to proposed Options 3, Section 8(f) either with: (1) a Valid Width NBBO; (2) upon the opening of a certain number of away markets; or (3) if a certain amount of time has passed since the commencement of the Opening Process. When opening with a trade, NOM's proposal will limit the current opening price boundaries on NOM. The proposal would align NOM's current Valid Width NBBO requirements to NTX Options' Quality Opening Markets requirements. This proposal seeks to provide a process for NOM, when opening with a trade, which requires tighter boundaries identical to NTX Options. The Exchange's proposal is described in greater detail below.

The Exchange proposes to amend the title of Options 3, Section 8 from "Opening and Halt Cross" to "Options Opening Process" to conform the title to NTX Options at Options 3,

Section 8, “Options Opening Process.” The Exchange also proposes to amend the title of Options 3, Section 8, within Options 4A, Section 11, Trading Session, and Options 6B, Section 1, Exercise of Options Contracts, to conform the title to “Opening Process” as proposed herein.

### **Definitions**

The Exchange proposes to amend the current “Definitions” section at proposed Options 3, Section 8(a). The Exchange proposes to remove the text “For purposes of this Rule the term:” and instead state, “The Exchange conducts an opening for all option series traded on the Exchange using its System.” This rule text change is identical to NTX Options at Options 3, Section 8(a).

The Exchange proposes to amend and alphabetize the current definitions within Options 3, Section 8(a). The Exchange proposes to set forth the following terms, which are described below: “Away Best Bid or Offer” or “ABBO;” “imbalance;” “market for the underlying security;” “Opening Price;” “Opening Process;” “Potential Opening Price;” “Pre-Market BBO;” “Valid Width National Best Bid or Offer” or “Valid Width NBBO;” “Valid Width Quote,” and “Zero Bid Market.” The Exchange is conforming the definitions within Options 3, Section 8(a) to start with “A” or “An,” as appropriate.

The Exchange proposes to relocate and amend the term “Away Best Bid or Offer” or “ABBO” from current NOM Options 3, Section 8(a)(7) to proposed Options 3, Section 8(a)(1). The words “shall mean” are replaced by “is,” but otherwise the description remains the same.

The Exchange proposes to relocate “imbalance” from current NOM Options 3, Section 8(a)(1) to proposed Options 3, Section 8(a)(2) and amend the language to provide that an imbalance is the number of unmatched contracts priced through the Potential Opening Price. Currently, the term “imbalance” is defined as “the number of contracts of eligible interest that

may not be matched with other order contracts at a particular price at any given time.” The Exchange proposes to adopt the NTX Options definition at Options 3, Section 8(a)(2). The Exchange will be defining Potential Opening Price within this rule change and therefore the new proposed imbalance definition would be more applicable with that definition.

The Exchange proposes to relocate “market for the underlying security” from current NOM Options 3, Section 8(a)(5) to proposed Options 3, Section 8(a)(3).<sup>57</sup> Today Options 3, Section 8(a)(5) describes “market for the underlying security” as “...either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis and announced to the membership on the Exchange’s website.” The Exchange proposes to amend this definition by replacing the term “primary volume market” with “an alternative market designated by the primary market.” The Exchange anticipates that an alternative market would be necessary if the primary listing market were impaired.<sup>58</sup> In the event that a primary market is impaired and utilizes its designated alternative market, the Exchange would utilize that market as the underlying.<sup>59</sup> The Exchange further proposes an additional contingency, in the event that the primary market is unable to open, and an alternative market is not designated (and/or the designated alternative market does not open), the Exchange may utilize a non-primary market to open all underlying securities from the primary market. The Exchange will select the non-

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<sup>57</sup> The proposed description of the term “market for the underlying security” is identical to Phlx’s Options 3, Section 8(a)(ii).

<sup>58</sup> The primary listing market and the primary volume market, as defined in NOM’s Rules, could be the same market and therefore an alternative market is not available under the current Rule.

<sup>59</sup> For example, in the event that the New York Stock Exchange LLC was unable to open because of an issue with its market and it designated NYSE Arca, Inc. (“NYSE Arca”) as its alternative market, then NOM would utilize NYSE Arca as the market for the underlying.

primary market with the most liquidity in the aggregate for all underlying securities that trade on the primary market for the previous two calendar months, excluding the primary and alternate markets. In order to open an option series, it would require an equity market's underlying quote. If another equity market displays opening prices for the underlying security, the Exchange proposes to utilize those quotes. This proposed change to the current System would allow the Exchange to open in situations, where the primary market is experiencing an issue, and also where an alternative market designated by the primary market may not be designated by the primary market or is unable to open. Utilizing a non-primary market with the most liquidity in the aggregate for all underlying securities for the previous two calendar months will ensure that the Exchange opens with quotes which are representative of the volume on that primary market. The Exchange believes that this proposal will enable it to open in the event that there are issues with the primary market or the alternate market assigned by the primary.

The Exchange proposes a new definition, "Opening Price," at proposed Options 3, Section 8(a)(4). This proposed definition would state that the Opening Price is described in sections (i) and (k). This proposed definition is identical to NTX Options at Options 3, Section 8(a)(4).

The Exchange proposes a new definition, "Opening Process," at proposed Options 3, Section 8(a)(5). This proposed definition would state that "Opening Process" is described in section (d). This proposed definition is identical to NTX Options at Options 3, Section 8(a)(5).

The Exchange proposes a new definition, "Potential Opening Price," at proposed Options 3, Section 8(a)(6). This proposed definition would state that Potential Opening Price is described in section (h). This proposed definition is identical to NTX Options at Options 3, Section 8(a)(6).

The Exchange proposes a new definition, “Pre-Market BBO,” at Options 3, Section 8(a)(7). This proposed definition would state that Pre-Market BBO is the highest bid and lowest offer among Valid Width Quotes. The term “Valid Width Quote” is defined below. This proposed definition is identical to NTX Options at Options 3, Section 8(a)(7).

The Exchange proposes to relocate and amend the definition of “Valid Width National Best Bid or Offer” or “Valid Width NBBO” from current NOM Options 3, Section 8(a)(6) to proposed Options 3, Section 8(a)(8). The Exchange proposes to replace the words “shall mean” with “is” and also replace the rule text which states, “any combination of NOM-registered Market Maker orders and quotes received over the QUO or SQF Protocols within a specified bid/ask differential as established and published by the Exchange,” with the proposed term “Valid Width Quote.” The Exchange also proposes a grammatical correction to add “the underlying security” instead of “underlying” and also add “which” in the second sentence. Finally, the Exchange proposes to amend the last sentence to: (1) replace “NOM” with “Exchange;” (2) remove references to Market Maker “orders” and only refer to quotes; and (3) change the term “such” to “Exchange” to make clear that all local quotes would be excluded from the Valid Width NBBO, when any local quotes are crossed. This proposed change to the definition will align NOM’s consideration of only Market Maker quotes, and not orders, with NTX Options at Options 3, Section 8. NOM’s current rule includes Market Maker orders, Market Maker quotes and away market quotes as part of the Valid Width NBBO calculation. The Exchange proposes to amend the Valid Width NBBO to exclude Market Maker orders and only include Market Maker Valid Width Quotes and away market quotes. This would exclude Opening Sweeps, which are orders that are entered by Market Makers through SQF.<sup>60</sup> The

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<sup>60</sup> Proposed NOM Options 3, Section 7(u) provides, that an Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening

Exchange proposes to exclude such orders from the Valid Width NBBO because Opening Sweeps are considered eligible interest during the Opening Process.

The Exchange proposes a new definition, “Valid Width Quote,” at proposed Options 3, Section 8(a)(9). This proposed definition would state that a Valid Width Quote is a two-sided electronic quotation, submitted by a Market Maker, quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options. The bid/ask differentials on NOM are identical to those on NTX Options. Like NTX Options, NOM would permit the Exchange to establish differences, other than as stated for one or more series or classes of options. Like NTX Options, NOM references its respective intra-day differentials. NOM refers to a difference not to exceed \$5 between the bid and offer, same as NTX Options at Options 3, Section 8(a)(9).

Finally, the Exchange proposes a new definition, “Zero Bid Market,” at proposed Options 3, Section 8(a)(10). This proposed new definition would state that a Zero Bid Market is where the best bid for an options series is zero. This proposed definition is the identical to NTX Options at Options 3, Section 8(a)(10). The Exchange believes that the aforementioned proposed definitions will bring additional clarity to the proposed rule.

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Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments and Market Wide Risk Protection. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b) and will be cancelled upon the open if not executed.

The Exchange proposes to eliminate the term “Order Imbalance Indicator” at current Options 3, Section 8(a)(2).<sup>61</sup> This term is no longer necessary as the Exchange is amending the manner in which imbalances are handled on NOM. The Order Imbalance Indicator describes a message that is disseminated by electronic means and contains information about Eligible Interest and the price in penny increments at which such interest would execute at the time of dissemination. NOM would disseminate the number of unmatched contracts priced through the Potential Opening Price, identical to NTX Options.<sup>62</sup>

The Exchange proposes to eliminate the term “NOM Opening Cross” at current Options 3, Section 8(a)(3).<sup>63</sup> This term is being replaced by the new term “Opening Process” at proposed Options 3, Section 8(a)(5) and provides, “An Opening Process is described herein in section (d).”

The Exchange proposes to eliminate the term “Eligible Interest” at current Options 3, Section 8(a)(4).<sup>64</sup> The Exchange describes eligible interest within proposed Options 3, Section 8(b), identical to NTX Options at Options 3, Section 8(a)(4). The defined term is no longer necessary.

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<sup>61</sup> The Order Imbalance Indicator shall disseminate the following information: (A) “Current Reference Price” shall mean an indication of what the opening cross price would be at a particular point in time; (B) the number of contracts of Eligible Interest that are paired at the Current Reference Price; (C) the size of any Imbalance; and (D) the buy/sell direction of any Imbalance. See Options 3, Section 8(a)(2).

<sup>62</sup> NOM’s proposed imbalance message would include the symbol, side of the imbalance, size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO. See proposed Options 3, Section 8(k)(1).

<sup>63</sup> “NOM Opening Cross” means the process for opening or resuming trading pursuant to this Rule and shall include the process for determining the price at which Eligible Interest shall be executed at the open of trading for the day, or the open of trading for a halted option, and the process for executing that Eligible Interest. See NOM Options 3, Section 8(a)(3).

<sup>64</sup> “Eligible Interest” shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of IOC (immediate-or-cancel), DAY (day order), GTC (good-till-cancelled), and OPG (On the Open Order). However, orders received via FIX protocol prior to the NOM Opening Cross designated with a time-in-force of IOC will be rejected and shall not be considered eligible interest. Orders received via SQF prior to the NOM Opening Cross designated with a time-in-force of IOC will remain in-force through the opening and shall be cancelled immediately after the opening.

## Eligible Interest

The first part of the Opening Process determines what constitutes eligible interest. The Opening Process is a price discovery process which considers interest on NOM and away markets to determine the optimal bid and offer with which to open the market. The Opening Process seeks the price point at which the most number of contracts may be executed, while protecting away market interest.

Proposed Options 3, Section 8(b) explains the eligible interest that will be accepted during the Opening Process which includes: Valid Width Quotes, Opening Sweeps<sup>65</sup> and orders. Quotes,<sup>66</sup> other than Valid Width Quotes, will not be included in the Opening Process, including Opening Only Orders, but excluding orders with a Time in Force of “Immediate-or-Cancel” and Add Liquidity Orders.<sup>67</sup> Also, the displayed and non-displayed portions of the Reserve Orders are considered for execution and in determining the Opening Price throughout the Opening Process.<sup>68</sup> This rule text is identical to NTX Options at Options 3, Section 8(b). Opening Sweeps, which are defined at proposed Options 3, Section 7(u), may be submitted through the Specialized Quote Feed or “SQF” protocol, which permits one-sided orders to be entered by a Market Maker. As proposed, an Opening Sweep is a Market Maker order submitted for execution against eligible interest in the System during the Opening Process. Market participants may specify orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. All Participants may submit interest into the Opening Process.

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<sup>65</sup> See proposed NOM Options 3, Section 7(a)(9).

<sup>66</sup> “Quotes” refers to a two-sided quote.

<sup>67</sup> The Exchange notes that current NTX Options at Options 3, Section 8(b) does not include the phrase, including Opening Only Orders, but excluding orders with a Time in Force of “Immediate-or-Cancel” and Add Liquidity Orders. The Exchange notes that this language is proposed to be added to NTX Options’ rule text in a separate rule change.

<sup>68</sup> This rule change proposes to add Reserve Orders at NOM Options 3, Section 7(g).

Additionally, the Exchange proposes to amend current Options 3, Section 7(a)(9) to remove the current order type described as “On the Open Order” and instead adopt an “Opening Sweep” order type identical to NTX Options at Options 3, Section 7(a)(9), as described in this proposal in the order types section. While the “On the Open Order” and “Opening Sweep” are similar, in that both order types may only be entered during the Opening Process, and both cancel back the unexecuted portion of the order, the Exchange believes that utilizing the same terminology and level of detail in describing this order type will conform the Opening Process of these two Nasdaq affiliated markets. Today, only a Market Maker may enter an Opening Sweep into SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments, as explained in the order types section above. The Opening Sweep will only participate in the Opening Process, pursuant to Options 3, Section 8, and will be cancelled after the opening if not executed.

Further, NOM currently permits orders marked with a “Time In Force” or “TIF” of “On the Open Order” or “OPG” to be utilized to specify orders for submission into the Opening Cross.<sup>69</sup> This TIF of “OPG” means for orders so designated, that if after entry into the System, the order is not fully executed in its entirety during the Opening Cross, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant. Identical to NTX Options, NOM proposes to replace the “On the Open Order”<sup>70</sup> TIF with an “Opening Only” or “OPG” TIF at proposed Supplementary Material .02(e) to Options 3, Section 7, which can only be executed in the Opening Process pursuant to Options 3, Section 8 as explained in the

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<sup>69</sup> See current NOM Options 3, Section 7(a)(9).

<sup>70</sup> See current NOM Options 3, Section 7(b)(1).

order types section above. Any portion of the order that is not executed during the Opening Process is cancelled. This order type is not subject to any protections listed in Options 3, Section 15 as explained above in the order types section. Finally, the Exchange proposes to note that OPG orders may not route.

The Exchange also proposes rule text within Options 3, Section 8(b)(1)(A) that states,

A Market Maker assigned in a particular option may only submit an Opening Sweep if, at the time of entry of the Opening Sweep, the Market Maker has already submitted and maintained a Valid Width Quote. All Opening Sweeps in the affected series entered by a Market Maker will be cancelled immediately if that Market Maker fails to maintain a continuous quote with a Valid Width Quote in the affected series.

The proposed rule text is identical to NTX Options at Options 3, Section 8(b)(1)(A).

Since the protocol over which an Opening Sweep is submitted is used for Market Maker quoting, the acceptance of an Opening Sweep was structured to rely on the Valid Width Quote. An Opening Sweep may only be submitted by a Market Maker when that Market Maker has a Valid Width Quote in the affected series.

The Exchange proposes rule text within Options 3, Section 8(b)(1)(B), which is similar to NTX Options at Options 3, Section 8(b)(1)(B),<sup>71</sup> that states,

Opening Sweeps may be entered at any price on either side of the market, at single or multiple price level(s), and may be cancelled and re-entered. A single Market Maker may enter multiple Opening Sweeps, with each Opening Sweep at a different price level. If a Market Maker submits multiple Opening Sweeps, the System will consider only the most recent Opening Sweep at each price level submitted by such Market Maker in determining the Opening Price. Unexecuted Opening Sweeps will be cancelled once the affected series is open.

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<sup>71</sup> NTX Options' language states that Opening Sweeps may be entered at any price with a minimum price variation applicable to the affected series.

Unlike NTX Options, NOM has Price Improving Orders which may be entered in minimum price increments as small as \$0.01. To account for Price Improving Orders, NOM's rule text has been modified to state that Opening Sweeps may be entered at any price.

The Exchange proposes to state at proposed Options 3, Section 8(b)(2) that, "The System will allocate interest pursuant to Options 3, Section 10." Options 3, Section 10 is the Exchange's allocation methodology which would apply to allocation in the Opening Process. This rule text is identical to NTX Options at Options 3, Section 8(b)(2).<sup>72</sup> Today, NOM allocates pursuant to Options 3, Section 10 within its opening. The allocation methodology is not being amended with this proposal.

The Exchange proposes to reserve Options 3, Section 8(c) identical to NTX Options.

Pursuant to proposed Options 3, Section 8(d), eligible interest may be submitted into NOM's System and will be received starting at the times noted herein. Specifically, Market Maker Valid Width Quotes and Opening Sweeps received starting at 9:25 AM will be included in the Opening Process. Orders entered at any time before an option series opens are included in the Opening Process. This proposed language adds specificity to the rule regarding the submission of Valid Width Quotes and Opening Sweeps. The 9:25 AM trigger is intended to tie the option Opening Process to quoting in the majority of the underlying securities; it presumes that option quotes submitted before any indicative quotes have been disseminated for the underlying security may not be reliable or intentional. Therefore, the Exchange has chosen a reasonable timeframe at which to begin utilizing option quotes, based on the Exchange's

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<sup>72</sup> Current NOM Options 3, Section 8(b)(5) states, "If the NOM Opening Cross price is selected and fewer than all contracts of Eligible Interest that are available in NOM Options would be executed, all Eligible Interest shall be executed at the NOM Opening Cross price in accordance with the execution algorithm assigned to the associated underlying option." The Exchange would continue to allocate pursuant to the Exchange's allocation methodology within Options 3, Section 10. Further, in accordance with current Options 3, Section 8(b)(6), all eligible interest will be executed at the Opening Price and disseminated on OPRA.

experience when underlying quotes start becoming available. NOM's current rule at Options 3, Section 8(b) provides the Opening Cross shall occur at or after 9:30 if the dissemination of a regular market hours quote or trade by the market for the underlying security has occurred or in the case of index options the Exchange has received the opening price of the underlying index. The Exchange continues to rely on the underlying price with this proposal.

Proposed Options 3, Section 8(d)(1) describes when the Opening Process may begin with specific time-related triggers. The proposed rule provides that the Opening Process for an option series will be conducted pursuant to proposed Options 3, Section 8 (f) through (k) on or after 9:30 AM, when the System has received the opening trade or quote on the market for the underlying security in the case of equity options or in the case of index options. This requirement is intended to tie the option Opening Process to receipt of liquidity. This rule text is identical to NTX Options at Options 3, Section 8(d)(1). Further, proposed NOM Options 3, Section 8(d)(3) makes clear that the Opening Process will stop and an option series will not open if the ABBO becomes crossed.

The Exchange proposes to state in proposed Options 3, Section 8(d)(2), identical to NTX Options at Options 3, Section 8(d)(2), that for all options, the underlying security, including indexes, must be open on the market for the underlying security for a certain time period to be determined by the Exchange for the Opening Process to commence. The Exchange proposes that the time period be no less than 100 milliseconds and no more than 5 seconds.<sup>73</sup> This proposal is intended to permit the price of the underlying security to settle down and not flicker back and

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<sup>73</sup> NTX Options' Opening Process is set at 100 milliseconds. The Exchange believes that 100 milliseconds is the appropriate amount of time given the experience with the NTX Options market. The Exchange would set the timer for NOM initially at 100 milliseconds. The Exchange will issue a notice to provide the initial setting and, would, thereafter, issue a notice if it were to change the timing, which may be between 100 milliseconds and 5 seconds. If the Exchange were to select a time not between 100 milliseconds and 5 seconds, it would be required to file a rule proposal with the Commission.

forth among prices after its opening. It is common for a stock to fluctuate in price immediately upon opening; such volatility reflects a natural uncertainty about the ultimate Opening Price, while the buy and sell interest is matched. The Exchange proposes a range of no less than 100 milliseconds and no more than 5 seconds in order to ensure that it has the ability to adjust the period for which the underlying security must be open on the primary market. The Exchange may determine that in periods of high/low volatility that allowing the underlying to be open for a longer/shorter period of time may help to ensure more stability in the marketplace prior to initiating the Opening Process.

Identical to NTX Options at Options 3, Section 8(d)(3), NOM proposes within Options 3, Section 8(d)(3) to provide that the Opening Process will stop and an option series will not open if the ABBO becomes crossed. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k). All eligible opening interest will continue to be considered during the Opening Process when the process is re-started. The proposed rule reflects that the ABBO cannot be crossed for the Opening Process to proceed. These events are indicative of uncertainty in the marketplace of where the option series should be valued. In these cases, the Exchange will wait for the ABBO to become uncrossed before initiating the Opening Process to ensure that there is stability in the marketplace in order to assist the Exchange in determining the Opening Price, or for a Valid Width Quote to be submitted. NOM will not consider if a Valid Width Quote(s) is no longer present. A Valid Width NBBO must be present for NOM to open with a trade pursuant to this proposal.

The Exchange proposes to add rule text within proposed Options 3, Section 8(d)(4) to provide a scenario, identical to NTX Options at Options 3, Section 8(d)(4). The Exchange proposes that an Opening Process will stop and an options series will not open, if a Valid Width

NBBO is no longer present, pursuant to paragraph (i)(2). Once this condition no longer exists, the Opening Process in the affected options series will start again, pursuant to paragraphs (j) and (k) below. Today, NOM will not open with a trade unless there is a Valid Width NBBO present. This would remain the case with this proposal. The Exchange believes that the addition of this text provides market participants with an expectation of the circumstances under which the Exchange would open an option series, as well as price protection afforded to interest attempting to participate in the Opening Process on NOM.

### **Reopening After a Trading Halt**

Proposed Options 3, Section 8(e) is intended to provide information regarding the manner in which a trading halt would impact the Opening Process. This rule text is identical to NTX Options at Options 3, Section 8(e). Proposed NTX Options at Options 3, Section 8(e) states that “[t]he procedure described in this Rule will be used to reopen an option series after a trading halt. If there is a trading halt or pause in the underlying security, the Opening Process will start again irrespective of the specific times listed in paragraph (d).” This last sentence makes clear that this rule applies to openings related to the normal market opening, as well as intra-day re-openings following a trading halt. Current Options 3, Section 8(b) similarly provides that an Opening Cross shall occur when trading resumes after a trading halt. The Exchange is not amending this provision, rather the text is being presented similar to NTX Options’ rule text.

### **Opening with a BBO**

Proposed Options 3, Section 8(f) describes when the Exchange may open with a quote on its market (no trade). The proposed rule states,

**Opening with a BBO (No Trade).** If there are no opening quotes or orders that lock or cross each other, and no routable orders locking or crossing the ABBO, the System will open with an opening quote by disseminating the Exchange’s best bid and offer among quotes and orders (“BBO”) that exist in the System at that time, if any of the below conditions are satisfied:

- (1) A Valid Width NBBO is present;
- (2) A certain number of other options exchanges (as determined by the Exchange) have disseminated a firm quote on OPRA; or
- (3) A certain period of time (as determined by the Exchange) has elapsed.

This proposal affirmatively states that the System will open with no trade provided one of the three conditions within Options 3, Section 8(f) are met. These three conditions are identical to NTX Options' current rule text at Options 3, Section 8(f). Proposed Options 3, Section (f)(1) provides that that the System will open, provided any one of the three conditions are met, and one of those conditions is a Valid Width NBBO, as noted in (f)(1). Subject to Options 3, Section 8(f)(2), an options series may open if a certain number of other options exchanges (as determined by the Exchange) have disseminated a firm quote on OPRA.<sup>74</sup> Also, an options series will open if a certain period of time, as determined by the Exchange, has elapsed pursuant to Options 3, Section 8(f)(3).<sup>75</sup> As previously noted, NOM requires a Valid Width NBBO to open.

Current Options 3, Section 8(b)(2) provides that “[i]f no trade is possible on NOM, then NOM will open dependent upon one of the following: (A) A Valid Width NBBO is present; (B) A certain number of other options exchanges (as determined by the Exchange) have disseminated a firm quote on OPRA; or (C) A certain period of time (as determined by the Exchange) has elapsed.” It will continue to permit one of these 3 scenarios to open an options series on NOM. A Valid Width NBBO must be present to open, pursuant to Options 3, Section 8(j) or (k), as described below.

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<sup>74</sup> NOM currently requires at least two other options exchanges to open. The setting will be initially set at two away options exchanges with this new proposal.

<sup>75</sup> NOM currently requires 15 minutes to pass with respect to this setting. The setting will remain at 15 minutes with this proposal.

### **Further Opening Processes**

If, as proposed, an opening did not occur pursuant to proposed paragraph (e) (Reopening After a Trading Halt) and there are opening Valid Width Quotes, or orders, that lock or cross each other, the System will calculate the Pre-Market BBO.<sup>76</sup> The Pre-Market BBO only uses Valid Width Quotes, which provide both a bid and offer as compared to orders which are one-sided. The rule text of proposed Options 3, Section 8(g) provides, “If there are opening Valid Width Quotes or orders that lock or cross each other, the System will calculate the Pre-Market BBO.” This rule text is identical to NTX Options at Options 3, Section 8(g). The Exchange calculates a Pre-Market BBO in order for the Exchange to open with a trade pursuant to proposed Options 3, Section 8(i), to ensure that the Pre-Market BBO is a Valid Width NBBO, which is required to open the market.<sup>77</sup> The Exchange does not disseminate a Pre-Market BBO, rather, the Exchange disseminates imbalance messages to notify Participants of available trading opportunities on NOM during the Opening Process.

### **Potential Opening Price**

Current Options 3, Section 8(b)(4) provides that the “[t]he NOM Opening Cross shall occur at the price that maximizes the number of contracts of eligible interest in NOM Options to be executed at or within the ABBO and within a defined range, as established and published by the Exchange, of the Valid Width NBBO.” The proposed Opening Process seeks to maximize the number of contracts of eligible interest that will execute during the Opening Process. The Exchange proposes to establish boundaries, identical to NTX Options, to establish the Opening

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<sup>76</sup> See proposed NOM Options 3, Section 8(g).

<sup>77</sup> The Pre-Market BBO is calculated to ensure, when the Exchange opens with a trade, a Valid Width NBBO is present, particularly when there is no away market quote or when the away market quote is not a Valid Width NBBO.

Price. The ABBO will continue to be considered as part of the Potential Opening Price.

Proposed Options 3, Section 8(i) describes the manner in which the ABBO is considered in arriving at the Potential Opening Price.

Proposed Options 3, Section 8(h) is similar to NTX Options at Options 3, Section 8(h),<sup>78</sup> in that it describes the general concept of how the System calculates the Potential Opening Price under all circumstances once the Opening Process is triggered. The first sentence of that paragraph describes a Potential Opening Price as a price where the System may open once all other Opening Process criteria are met. Next, the rule text provides, “[t]o calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders) for the option series and identify the price at which the maximum number of contracts can trade (“maximum quantity criterion”). In addition, paragraphs (i)(1)(C) and (j)(5) - (7) below contain additional provisions related to the Potential Opening Price.” The proposal attempts to maximize the number of contracts that can trade and is intended to find the most reasonable and suitable price, relying on the maximization to reflect the best price.

Proposed Options 3, Section 8(h)(1) presents the scenario for more than one Potential Opening Price. Proposed Options 3, Section 8(h)(1) provides,

More Than One Potential Opening Price. When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the nearest minimum price increment.<sup>79</sup>

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<sup>78</sup> NTX Options currently does not have Reserve Orders, so the language concerning Reserve Orders is not included.

<sup>79</sup> NTX Options rounds mid-point up to the minimum price variation, where NOM would round up to the nearest minimum price increment as a result of offering Price Improving Orders which can be entered in

Proposed Options 3, Section 8(h)(2) presents the scenario for two or more Potential Opening Prices. Proposed Options 3, Section 8(h)(2) provides, “If two or more Potential Opening Prices for the affected series would satisfy the maximum quantity criterion and leave contracts unexecuted, the Opening Price will be either the lowest executable bid or highest executable offer of the largest sized side.” This, again, bases the Potential Opening Price on the maximum quantity that is executable.

Proposed Options 3, Section 8(h)(3) provides that “[t]he Opening Price is bounded by the better away market price that cannot be satisfied with the Exchange routable interest.” The Exchange does not open with a trade at a price that trades through another market’s BBO. This process, importantly, breaks a tie by considering the largest sized side and away markets, which are relevant to determining a fair Opening Price.

The System applies certain boundaries to the Potential Opening Price to help ensure that the price is a reasonable one by identifying the quality of that price; if a well-defined, fair price can be found within these boundaries, the option series can open at that price without going through a further price discovery mechanism.

Proposed Options 3, Section 8(i), Opening with a Trade, provides:  
The Exchange will open the option series for trading with a trade on Exchange interest only at the Opening Price, if any of these conditions occur:

(A) the Potential Opening Price is at or within the best of the Pre-Market BBO and the ABBO, which is also a Valid Width NBBO;

(B) the Potential Opening Price is at or within the non-zero bid ABBO, which is also a Valid Width NBBO, if the Pre-Market BBO is crossed; or

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smaller increments. NOM’s proposed rule text at Options 3, Section 8(h) is otherwise identical to NTX Options at Options 3, Section 8(h).

(C) where there is no ABBO, the Potential Opening Price is at or within the Pre-Market BBO, which is also a Valid Width NBBO.

For the purposes of calculating the mid-point the Exchange will use the better of the Pre-Market BBO or ABBO as a boundary price and will open that options series for trading with an execution at the resulting Potential Opening Price.<sup>80</sup> Proposed Options 3, Section 8(i) is identical to NTX Options at Options 3, Section 8(i).

These boundaries serve to validate the quality of the Opening Price. Proposed Options 3, Section 8(i), provides that the Exchange will open the option series for trading with an execution at the resulting Potential Opening Price, as long as it is within the defined boundaries regardless of any imbalance. The Exchange believes that since the Opening Price can be determined within a well-defined boundary and not trading through other markets, it is fair to open the market immediately with a trade and to have the remaining interest available to remain on the Order Book to be potentially executed in the displayed market. Using a boundary-based price counterbalances opening faster at a less bounded and perhaps less expected price and reduces the possibility of leaving an imbalance.

Proposed Options 3, Section 8(i)(2), provides that if there is more than one Potential Opening Price which meets the conditions set forth in proposed Options 3, Section 8(i)(1)(A), (B) or (C), where (A) no contracts would be left unexecuted and (B) any value used for the mid-point calculation (which is described in subparagraph (g)) would cross either: (i) the Pre-Market

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<sup>80</sup> Today, NOM Options 3, Section 8(b)(4)(B) states, “If more than one price exists under subparagraph (A), and there are no contracts that would remain unexecuted in the cross, the NOM Opening Cross shall occur at the midpoint price, rounded to the penny closest to the price of the last execution in that series (and in the absence of a previous execution price, the price will round up, if necessary) of (1) the National Best Bid or the last offer on NOM against which contracts will be traded whichever is higher, and (2) the National Best Offer or the last bid on NOM against which contracts will be traded whichever is lower.” This process for considering the mid-point is being eliminated in favor of NTX Options’ methodology for calculating the mid-point as described in proposed Options 3, Section 8(h).

BBO or (ii) the ABBO, then the Exchange will open the option series for trading with an execution and use the best price which the Potential Opening Price crosses as a boundary price for the purpose of the mid-point calculation. If these aforementioned conditions are not met, but a Valid Width NBBO is present, an Opening Quote Range is calculated as described in proposed Options 3, Section 8(j) and the price discovery mechanism, described in proposed Options 3, Section 8(k), would commence. The proposed rule explains the boundary, as well as the price basis for the mid-point calculation, to enable the market to immediately open with a trade, which improves the detail included in the rule. The Exchange believes that this process is logical because it seeks to select a fair and balanced price. This rule text is identical to NTX Options at Options 3, Section 8(i).

Today, NOM has the concept of a Valid Width NBBO in its current rule. The Exchange proposes to amend the description of a Valid Width NBBO to provide that it would be a combination of all away market quotes and Valid Width Quotes received over SQF. The Valid Width NBBO is configurable by underlying, and a table with valid width differentials will be available on NOM's webpage. Away markets that are crossed will void all Valid Width NBBO calculations. If any Market Maker quotes on NOM are crossed internally, then all such quotes will be excluded from the Valid Width NBBO calculation. Within the Valid Width NBBO, all away market quotes and any combination of Market Maker Valid Width Quotes, whether they include the Exchange's Best Bid or Offer or not, are represented. The price discovery on NOM currently includes not only Market Maker quotes, but also away market interest, this will remain the same with the proposal. The following examples illustrate the calculation of the Valid Width NBBO:

**Example 1:** (away markets are crossed)

Assume the Valid Width NBBO bid/ask differential is set by NOM at .10.

Market Maker1 is quoting on the Exchange 1.05-1.15

Market Maker2 is quoting on the Exchange 1.00-1.10

NOM BBO 1.05-1.10

Assume Cboe is quoting .90-1.10

Assume MIAX is quoting .70-.85.

Since the ABBO is crossed (.90-.85), Valid Width NBBO calculations are not taken into account until the away markets are no longer crossed. Once the away markets are no longer crossed, the Exchange will determine if a Valid Width NBBO can be calculated. Assume the ABBO uncrosses because MIAX updates their quote to .90-1.15, the NOM BBO of 1.05-1.10 is considered a Valid Width NBBO. Pursuant to proposed Options 3, Section 8(f), NOM will open with no trade and BBO disseminated as 1.05-1.10.

**Example 2:** (NOM orders/quotes are crossed, ABBO is Valid Width NBBO pursuant to proposed Options 3, Section 8(f))

Assume that the Valid Width NBBO bid/ask differential is set by the Exchange at .10.

Market Maker1 is quoting on the Exchange 1.05-1.15 (10x10 contracts)

Market Maker2 is quoting on the Exchange .90-.95 (10x10 contracts)

NOM BBO crossed, 1.05-.95, while another Market Maker3 is quoting on the Exchange at .90-1.15 (10x10 contracts).

Since the NOM BBO is crossed, the crossing quotes are excluded from the Valid Width NBBO calculation. However, assume Cboe is quoting .95-1.10 and MIAX is quoting .95-1.05, resulting in an uncrossed ABBO of .95-1.05.

The ABBO of .95-1.05 meets the required .10 bid/ask differential and is considered a Valid Width NBBO. As Market Maker1 and Market Maker2 have 10 contracts each, these contracts will cross because there is more than one price at which those contracts could execute. The opening will occur with 10 contracts executing at 1.00, which is the mid-point of the NBBO.

At the end of the Opening Process, only the quote from Market Maker3 remains so the NOM disseminated quote at the end of Opening Process will be .90-1.15 (10x10 contracts).

The requirement of a Valid Width NBBO being present continues to ensure that the Opening

Price is rationally based on what is present in the broader marketplace during the Opening

Process. As noted herein, the Valid Width NBBO includes all away market quotes. A Potential Opening Price must be at or within the ABBO, provided the market opened prior to calculation an OQR as discussed below.

Proposed Options 3, Section 8(j) provides that the System will calculate an Opening Quote Range (“OQR”) for a particular option series that will be utilized in the price discovery mechanism if the Exchange has not opened subject to any of the provisions described above. Proposed Options 3, Section 8(j) is identical to NTX Options at Options 3, Section 8(j). Provided the Exchange has been unable to open the option series<sup>81</sup> the OQR would broaden the range of prices at which the Exchange may open. This would allow additional interest to be eligible for consideration in the Opening Process. The OQR is an additional type of boundary beyond the boundaries mentioned in proposed Options 3, Section 8(h) and (i). OQR is intended to limit the Opening Price to a reasonable, middle ground price and thus reduce the potential for erroneous trades during the Opening Process. Although the Exchange applies other boundaries such as the BBO, the OQR provides a range of prices that may be able to satisfy additional contracts, while still ensuring a reasonable Opening Price. The Exchange seeks to execute as much volume as is possible at the Opening Price. OQR is constrained by the least aggressive limit prices within the broader limits of OQR. The least aggressive buy order or Valid Width Quote bid and least aggressive sell order or Valid Width Quote offer within the OQR will further bound the OQR. Although the Exchange applies other boundaries such as the BBO, the OQR is outside of the BBO. It is meant to provide a price that can satisfy more size without becoming unreasonable. Below is an example of the manner in which OQR is constrained.

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<sup>81</sup> This would refer to an opening pursuant to proposed Options 3, Section 8(f) or (i).

**OQR Example:** Assume the below pre-opening interest:

Market Maker quotes 4.10 (100) x 4.20 (50)

Order1: Public Customer Buy 300 @ 4.39

Order2: Public Customer Sell 50 @ 4.13

Order3: Public Customer Sell 5 @ 4.29

Opening Quote Range<sup>82</sup> configuration in this scenario is +/- 0.10

9:30 a.m. events occur, underlying opens

First imbalance message: Buy imbalance @ 4.20, 100 matched, 200 unmatched

Next 3 imbalance messages: Buy imbalance @ 4.29, 105 matched, 195 unmatched

Potential Opening Price calculation would have been  $4.20 + 0.10 = 4.30$ , but OQR is further bounded by the least aggressive Sell order @ 4.29

Order1 executes against Order 2 50 @ 4.29

Order1 executes against Market Maker quote 50 @ 4.29

Order1 executes against Order 3 5 @ 4.29

Remainder of Order1 cancels as it is through the Opening Price

Market Maker quote purges as its entire offer side volume has been exhausted

Specifically, to determine the minimum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be subtracted from the highest quote bid among Valid Width Quotes on the Exchange and on the away market(s), if any, except as provided in proposed Options 3, Section 8(j) paragraphs (3) and (4). To determine the maximum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be added to the lowest quote offer among Valid Width Quotes on the Exchange and on the away market(s), if any, except as provided in proposed NOM Options 3, Section 8(j) paragraphs (3) and (4).<sup>83</sup> However, if one or more away markets are disseminating a BBO that is not crossed, and there are Valid Width Quotes on the Exchange that cross each other or are marketable against the ABBO, then the minimum value for the OQR will be the highest away bid.<sup>84</sup> It should be noted

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<sup>82</sup> This configuration would be provided by the Exchange in a table as noted in the proposed Options 3 Section 8(j)(1) and (2).

<sup>83</sup> See proposed NOM Options 3, Section 8(j)(2).

<sup>84</sup> See proposed NOM Options 3, Section 8(j)(3)(A).

that the Opening Process would stop and an option series will not open if the ABBO becomes crossed, pursuant to proposed Options 3, Section 8(d)(3). In addition, the maximum value for the OQR will be the lowest away offer.<sup>85</sup>

If there is more than one Potential Opening Price possible, where no contracts would be left unexecuted, any price used for the mid-point calculation (which is described in proposed Options 3, Section 8(h)(3)), that is outside of the OQR, will be restricted to the OQR price on that side of the market for the purposes of the mid-point calculation. Proposed Options 3, Section 8(j)(4) continues the theme of relying on both maximizing executions and looking at the correct side of the market to determine a fair price.

Proposed NOM Options 3, Section 8(j)(5) deals with the situation where there is an away market price involved. If there is more than one Potential Opening Price possible, where no contracts would be left unexecuted, pursuant to proposed Options 3, Section 8(h)(3), when contracts will be routed, the System will use the away market price as the Potential Opening Price. The Exchange is seeking to execute the maximum amount of volume possible at the Opening Price. The Exchange will enter into the Order Book any unfilled interest at a price equal to or inferior to the Opening Price.<sup>86</sup> It should be noted; the Exchange will not trade through an away market.<sup>87</sup>

Finally, proposed Options 3, Section 8(j)(6) provides if the Exchange determines that non-routable interest can execute the maximum number of Exchange contracts against Exchange interest, after routable interest has been determined by the System to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can

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<sup>85</sup> See proposed NOM Options 3, Section 8(j)(3)(B).

<sup>86</sup> See proposed NOM Options 3, Section 8(k)(5).

<sup>87</sup> See current NOM Options 3, Section 5(d).

execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in proposed Options 3, Section 8(h). This continues the theme of trying to satisfy the maximum amount of interest during the Opening Process. This is identical to NTX Options at Options 3, Section 8(j). NOM's proposed rule at Options 3, Section 8(j)(6) provides that the System will route all routable interest pursuant to Options 3, Section 10(a)(1).

### **Price Discovery Mechanism**

If the Exchange has not opened pursuant to proposed paragraphs (f) or (i), after the OQR is calculated, pursuant to proposed Options 3, Section 8(j), the Exchange will conduct a price discovery mechanism, pursuant to proposed Options 3, Section 8(k), which is identical to NTX Options at Options 3, Section 8(k). The price discovery mechanism is the process by which the Exchange seeks to identify an Opening Price having not been able to do so following the process outlined thus far herein. The principles behind the price discovery mechanism are, as described above, to satisfy the maximum number of contracts possible by identifying a price that may leave unexecuted contracts. However, the price discovery mechanism applies a proposed, wider boundary to identify the Opening Price, and the price discovery mechanism involves seeking additional liquidity.

The Exchange believes that conducting the price discovery process in these situations protects orders from receiving a random price that does not reflect the totality of what is happening in the markets on the opening, and also further protects opening interest from receiving a potentially erroneous execution price on the opening. Opening immediately has the benefit of speed and certainty, but that benefit must be weighed against the quality of the execution price, and whether orders were left unexecuted. The Exchange believes that the proposed rule strikes an appropriate balance.

The proposed rule attempts to open using Exchange interest only to determine an Opening Price, provided certain conditions contained in proposed Options 3, Section 8(j) are present, to ensure market participants receive a quality execution in the opening. The proposed rule does not consider away market liquidity, for purposes of routing interest to other markets, until the price discovery mechanism pursuant to proposed paragraph (k). Rather, away market prices are considered for purposes of avoiding trade-throughs. As a result, the Exchange might open without routing, if all of the conditions described above are met. The Exchange believes that the benefit of this process is a more rapid opening with quality execution prices. Opening with a quote, pursuant to Options 3, Section 8(f), would not require consideration of away market quotes because NOM would have opened with a local quote that was not locked or crossed with the away market, provided there are no opening quotes or orders that lock or cross each other, and no routable orders locking or crossing the ABBO.<sup>88</sup> With respect to Opening with a Trade, pursuant to Options 3, Section 8(i), the Exchange would not consider away market interest if it could open immediately with a trade, provided that the Exchange would not trade-through an away market. If NOM is locked and crossed with an away market, then the Exchange would require additional price discovery, pursuant to Options 3, Section 8(j) and (k). Finally, the Exchange considers away market interest in the Valid Width NBBO.

Today, pursuant to current Options 3, Section 8(b)(3) and (7), NOM disseminates, by electronic means, an Order Imbalance Indicator every 5 seconds beginning between 9:20 and 9:28, or a shorter dissemination interval as established by the Exchange, with the default being set at 9:25 a.m. The start of dissemination, and a dissemination interval, are posted by NOM on

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<sup>88</sup> See proposed NOM Options 3, Section 8(f).

its website.<sup>89</sup> Also, NOM would disseminate an Order Imbalance Indicator for an imbalance containing marketable routable interest.<sup>90</sup> The Exchange proposes to continue to disseminate an imbalance, but instead of the manner in which NOM utilizes an Order Imbalance Indicator today, NOM would instead post up to 4 Imbalance Messages which each run its own Imbalance Timer, identical to NTX Options. Today, NOM's imbalance process begins, even if it has no interest. With this proposal, NOM's imbalance message will serve to notify Participants of the availability of interest to cross in the opening. The Exchange believes that the proposed methodology will attract interest during the Opening Process, because the imbalance message will highlight for Participants the available size that may be crossed. The Exchange believes adopting NTX Options' process improves the quality of execution of NOM's opening by attracting more liquidity through more meaningful imbalance notifications that broadcast trading opportunities during NOM's Opening Process. The proposed changes give Participants more transparency into the Opening Process that would afford them a better experience.

Specifically, proposed Options 3, Section 8(k)(1) provides that the System will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance, size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds to notify Participants of available interest that may be crossed during the Opening Process. The Imbalance Timer would initially be set 200 milliseconds.<sup>91</sup> The Imbalance Message is intended to attract additional liquidity, much like an auction, using an auction message and timer. The

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<sup>89</sup> See <https://www.nasdaq.com/docs/NOMSystemSettings>.

<sup>90</sup> See current NOM Options 3, Section 8(b)(3).

<sup>91</sup> NTX Options' timer is currently set at 200 milliseconds. NOM will issue a notice to provide the initial setting and would thereafter issue a notice if it were to change the timing. See *supra* note 89. If NOM were to select a time which exceeds 3 seconds, it would be required file a rule proposal with the Commission.

Imbalance Timer would be for the same number of seconds for all options traded on the Exchange. Pursuant to this proposed rule, as described in more detail below, the Exchange may have up to 4 Imbalance Messages which each run its own Imbalance Timer. Proposed Options 3, Section 8(k)(1) is identical to NTX Options at Options 3, Section 8(k)(1).

The Exchange proposes to provide at Options 3, Section 8(k)(1)(A),

An Imbalance Message will be disseminated showing a “0” volume and a \$0.00 price if: (i) no executions are possible but routable interest is priced at or through the ABBO; or (ii) internal quotes are crossing each other. Where the Potential Opening Price is through the ABBO, an imbalance message will display the side of interest priced through the ABBO.

This rule text explains the information that is being conveyed when an imbalance message indicates “0” volume, such as (i) when no executions are possible and routable interest is priced at or through the ABBO; or (ii) internal quotes are crossing each other. The Imbalance Message provides details regarding the potential state of the interest available. Where the Potential Opening Price is through the ABBO, an imbalance message will display the side of interest priced through the ABBO. The Imbalance Message provides transparency to market participants during the Opening Process. NOM, as noted herein, does not have a concept of a Quality Opening Market, but does have a concept of a Valid Width NBBO, which is always required, when attempting to open with a trade pursuant to Options 3 Section 8(d)(4).

Proposed Options 3, Section 8(k)(2), states that any new interest received by the System will update the Potential Opening Price. An update may not result in an immediate change to the Potential Opening Price, however, the Exchange will consider new interest as it arrives and update the Potential Opening Price accordingly based on existing interest and new interest.

Proposed Options 3, Section 8(k)(2) is identical to NTX Options at Options 3, Section 8(k)(2).

By way of example:

**Case 1 – An update which does not result in a change to Potential Opening Price**

Valid Width NBBO = 0.20

CBOE market maker quotes 1.15 x 1.30 (10)

NOM Market Maker quotes 1 x 1.25 (10)

Order to sell arrives for 1 contract @ 1.26 (Potential Opening Price updates, but determines there is no match, and therefore no change to lack of Potential Opening Price)

Order to buy arrives for 100 contracts @ 1.26 (Potential Opening Price updates, and changes to 1.26)

Order to buy arrives for 1000 contracts @ 1.24 (Potential Opening Price updates, but remains unchanged from 1.26)

**Case 2 – An update results in a change to the Potential Opening Price**

Valid Width NBBO = 0.20

CBOE market maker quotes 1.15 x 1.30 (10)

NOM Market Maker quotes 1 x 1.25 (10)

Order to sell arrives for 1 contract @ 1.26 (Potential Opening Price updates, but determines there is no match, and therefore no change to lack of Potential Opening Price)

Order to buy arrives for 1000 contracts @ 1.24 (Potential Opening Price updates, but determines there is no match, and therefore no change to lack of Potential Opening Price)

Order to sell arrives for 1000 contracts @ 1.24 (Potential Opening Price updates and changes to 1.24)

If during or at the end of the Imbalance Timer, the Opening Price is at or within the OQR, the Imbalance Timer will end and the System will open with a trade at the Opening Price if the executions consist of Exchange interest only without trading through the ABBO, and without trading through the limit price(s) of interest within OQR, which is unable to be fully executed at the Opening Price. If no new interest comes in during the Imbalance Timer, and the Potential Opening Price is at or within OQR and does not trade through the ABBO, the Exchange will open with a trade at the end of the Imbalance Timer at the Potential Opening Price. This reflects

that the Exchange is seeking to identify a price on the Exchange without routing away, yet which price may not trade through another market and the quality of which is addressed by applying the OQR boundary.

Provided the option series has not opened pursuant to proposed Options 3, Section 8(k)(2),<sup>92</sup> the System will send a second Imbalance Message with a Potential Opening Price that is bounded by the OQR (and would not trade through the limit price(s) of interest within OQR, which is unable to be fully executed at the Opening Price) and includes away market volume in the size of the imbalance to Participants; and concurrently initiate a Route Timer, not to exceed one second.<sup>93</sup> The Route Timer is intended to give Exchange users an opportunity to respond to an Imbalance Message before any opening interest is routed to away markets and, thereby, maximize trading on the Exchange. If during the Route Timer, interest is received by the System, which would allow the Opening Price to be within OQR, without trading through away markets and without trading through the limit price(s) of interest within OQR, which is unable to be fully executed, the System will open with trades and the Route Timer will simultaneously end. The System will monitor quotes and orders received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.<sup>94</sup> This proposal serves to widen the boundary of available Opening Prices, which

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<sup>92</sup> The System would not open pursuant to proposed Options 3, Section 8(k)(2) if the Potential Opening Price is outside of the OQR, or if the Potential Opening Price is at or within the OQR, but would otherwise trade through the ABBO, or through the limit price(s) of interest within the OQR, which is unable to be fully executed at the Potential Opening Price.

<sup>93</sup> The Route Timer would be a brief timer that operates as a pause before an order is routed to an away market. Currently, the NTX Options Route Timer is set to one second. NOM's Route Timer will also be initially set to one second. The Exchange will issue a notice to Participants to provide the initial setting and would thereafter issue a notice to Participants, if it were to change the timing within the range of up to one second. If the Exchange were to select a time beyond one second, it would be required file a rule proposal with the Commission.

<sup>94</sup> See proposed NOM Options 3, Section 8(k)(3)(B).

should similarly increase the likelihood that an Opening Price can be determined. The Route Timer, like the Imbalance Timer, is intended to permit responses to be submitted and considered by the System in calculating the Potential Opening Price. The System does not route away until the Route Timer ends.

Proposed Options 3, Section 8(k)(3)(C) provides if no trade occurred pursuant to proposed Section 8(k)(3)(B), when the Route Timer expires, if the Potential Opening Price is within OQR (and would not trade through the limit price(s) of interest within OQR, which is unable to be fully executed at the Opening Price), the System will determine if the total number of contracts displayed at better prices than the Exchange's Potential Opening Price on away markets ("better priced away contracts") would satisfy the number of marketable contracts available on the Exchange. This provision protects the unexecuted interest and should result in a fairer price.<sup>95</sup> The Exchange will open the option series by routing and/or trading on the Exchange, pursuant to proposed Options 3, Section 8(k)(3)(C) paragraphs (i) through (iii). Proposed Options 3, Section 8(k)(3) is identical to NTX Options at Options 3, Section 8(k)(3).

Proposed Options 3, Section 8(k)(3)(C)(i) provides if the total number of better priced away contracts would satisfy the number of marketable contracts available on the Exchange on either the buy or sell side, the System will route all marketable contracts on the Exchange to such better priced away markets as Intermarket Sweep Order ("ISO"),<sup>96</sup> designated as Immediate-or-

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<sup>95</sup> Current NOM Options 3, Section 8(b)(4)(C) considers unexecuted contracts. The proposed Opening Process likewise serves to protect unexecuted interest and also execute as many contract as possible during the Opening Process. The System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted contracts from the imbalance not traded or routed will be cancelled back to the entering participant if they remain unexecuted and priced through the Opening Price. All other interest will be eligible for trading after opening, if consistent with the Participant's instruction as provided for within proposed Options 3, Section 8(k)(3)(E) pursuant to a Forced Opening.

<sup>96</sup> Proposed NOM Options 3, Section 7(b)(3) describes an ISO Order.

Cancel (“IOC”)<sup>97</sup> Order(s), and determine an opening NOM Best Bid or Offer (“BBO”) that reflects the interest remaining on the Exchange. The System will price any contracts routed to away markets at the Exchange’s Opening Price or pursuant to proposed Options 3, Section 8(k)(3)(C)(ii) or (iii) described below. Routing away at the Exchange’s Opening Price is intended to achieve the best possible price available at the time the order is received by the away market. Proposed Options 3, Section 8(k)(3)(C)(i) is identical to NTX Options at Options 3, Section 8(k)(3)(C)(i).

Proposed Options 3, Section 8(k)(3)(C)(ii) provides if the total number of better priced away contracts would not satisfy the number of marketable contracts the Exchange has, the System will determine how many contracts it has available at the Exchange Opening Price. If the total number of better priced away contracts, plus the number of contracts available at the Exchange Opening Price, would satisfy the number of marketable contracts on the Exchange on either the buy or sell side, the System will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price and trade available contracts on the Exchange at the Exchange Opening Price. The System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order’s limit price pursuant to this subparagraph. This continues with the theme of maximum possible execution of the interest on the Exchange or away markets. Proposed Options 3, Section 8(k)(3)(C)(ii) is identical to NTX Options at Options 3, Section 8(k)(3)(C)(ii).

Proposed Options 3, Section 8(k)(3)(C)(iii) provides if the total number of better priced away contracts, plus the number of contracts available at the Exchange Opening Price, plus the

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<sup>97</sup> Proposed Supplementary Material .02(d) to NOM Options 3, Section 7 describes an IOC Order.

contracts available at away markets at the Exchange Opening Price would satisfy the number of marketable contracts the Exchange has on either the buy or sell side, the System will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price (pricing any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price), trade available contracts on the Exchange at the Exchange Opening Price, and route a number of contracts that will satisfy interest at away markets at prices equal to the Exchange Opening Price. This provision is intended to introduce routing to away markets, potentially both at a better price than the Exchange Opening Price, as well as at the Exchange Opening Price to access as much liquidity as possible to maximize the number of contracts able to be traded as part of the Opening Process. The Exchange routes at the better of the Exchange's Opening Price or the order's limit price to first ensure the order's limit price is not violated. Routing away at the Exchange's Opening Price is intended to achieve the best possible price for the routed order, at the time the order is received by the away market. Proposed Options 3, Section 8(k)(3)(C)(iii) is identical to NTX Options at Options 3, Section 8(k)(3)(C)(iii). By way of example:

**Example of Interest “Better Than” and “Better of the Exchange Opening Price” rule**

**text:** Options 3, Section 8(k)(3)(C)(ii), Options 3, Section 8(k)(3)(C)(iii) and Options 3, Section 8(k)(5)

NOM Market Maker 1 BBO 4.00 x 4.15 (100 contracts)

Cboe 4.00 x 4.14 (100 contracts)

DNR Order to buy 105 @ 4.20

Routable SRCH Order to buy 100 contracts at 4.18

Sell 2 contracts @ 4.21

After imbalance process:

SRCH Order routes at limit price of 4.18 (better than Opening Price of 4.20) and executes at 4.14 on Cboe's offer.

DNR Order trades 100 with NOM Market Maker quote (quote purges)

Proposed Options 3, Section 8(k)(3)(D) provides that the System may send up to two additional Imbalance Messages<sup>98</sup> (which may occur while the Route Timer is operating) bounded by OQR and reflecting away market interest in the volume. These boundaries are intended to assist in determining a reasonable price at which an option series might open. This provision is proposed to further state that after the Route Timer has expired, the processes in proposed Options 3, Section 8(k)(3)(C)(3) will repeat (except no new Route Timer will be initiated). No new Route Timer is initiated, because after the Route Timer has been initiated and subsequently expired, no further delay is needed before routing contracts. This is the case if at any point thereafter the Exchange is able to satisfy the total number of marketable contracts the Exchange has by executing on the Exchange and routing to other markets. Proposed Options 3, Section 8(k)(3)(D) is identical to NTX Options at Options 3, Section 8(k)(3)(D).

Proposed Options 3, Section 8(k)(3)(E), entitled "Forced Opening," will describe what will happen as a last resort in order to open an options series when the processes described above have not resulted in an opening of the options series. Under this process, called a Forced Opening, after all additional Imbalance Messages have occurred, pursuant to proposed subparagraph (D), the System will open the series by executing as many contracts as possible by routing to away markets at prices better than the Exchange Opening Price for their disseminated

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<sup>98</sup> The first two Imbalance Messages always occur if there is interest which will route to an away market. If the Exchange is thereafter unable to open at a price without trading through the ABBO, up to two more Imbalance Messages may occur based on whether or not the Exchange has been able to open before repeating the Imbalance Process. The Exchange may open prior to the end of the first two Imbalance Messages provided routing is not necessary.

size, trading available contracts on the Exchange at the Exchange Opening Price bounded by OQR (without trading through the limit price(s) of interest within OQR, which is unable to be fully executed at the Opening Price). The System will also route contracts to away markets at prices equal to the Exchange Opening Price at their disseminated size. In this situation, the System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted interest from the imbalance not traded or routed will be cancelled back to the entering Participant, if they remain unexecuted and priced through the Opening Price, otherwise orders will remain in the Order Book. All other interest will be eligible for trading after opening, if consistent with the Participant's instruction. The boundaries of OQR and limit prices within the OQR are intended to ensure a quality Opening Price as well as protect unexecutable interest, which may not be able to be fully executed. Proposed Options 3, Section 8(k)(3)(E) is identical to NTX Options Proposed Options 3, Section 8(k)(3)(E). The Exchange believes that cancelling the order back to the Participant allows for the Participant to determine how its customer would like its order to be handled. NOM proposes to cancel back to provide certainty to its Participants, in line with current handling on NOM.

Proposed Options 3, Section 8(k)(3)(F), provides the System will execute orders at the Opening Price that have contingencies (such as without limitation, Reserve Orders) and non-routable orders, such as a "Do Not Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency orders,<sup>99</sup> except Reserve Orders may route up to their full volume. The Exchange is adding this detail to memorialize the manner in which the System will execute non-routable orders at the opening. The Exchange desires to provide certainty to market

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<sup>99</sup> As proposed, NOM would have the following contingency orders that will not route: a Stop Order, an All-or-None Order and a Fill-or-Kill Order.

participants as to which contingency orders will execute, and which orders will route during the Opening Process. Proposed Options 3, Section 8(k)(3)(F) is similar to NTX Options at Options 3, Section 8(k)(3)(F).<sup>100</sup>

The Exchange proposes to state at Options 3, Section 8(k)(4) that, pursuant to Options 3, Section 8(k)(3)(F), the System will re-price Do Not Route Orders (that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur) to the current ABBO, and disseminate the re-priced DNR Order as part of the new BBO. This paragraph, which explains the treatment of DNR Orders, is substantially similar to NTX Options at Options 3, Section 8(k)(4) except that Price Improving Orders on NOM would cause the System to reprice a DNR Order to the current ABBO, and disseminate the re-priced DNR Order as part of the new BBO. The System will re-price a DNR Order when any residual DNR Order interest, which was not satisfied in the Opening Process, crosses the ABBO.<sup>101</sup>

Proposed Options 3, Section 8(k)(5) provides that the System will cancel any order or quote priced through the Opening Price. All other interest will be eligible for trading after the opening. This rule text is identical to NTX Options at Options 3, Section 8(k)(5). This rule makes clear that interest priced through the Opening will be cancelled.

Proposed Options 3, Section 8(k)(6), which is identical to NTX Options at Options 3, Section 8(k)(6), provides that during the opening of the option series, where there is an execution possible, the System will give priority to Market Orders first, then to resting Limit Orders and quotes. The allocation provisions of Options 3, Section 10 will apply. Options 3, Section 10 describes NOM's Order Book allocation. The Exchange provides certainty to market

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<sup>100</sup> NTX Options does not currently have Reserve Orders. This is the only difference between NOM and NTX Options with respect to Options 3, Section 8(k)(3)(F).

<sup>101</sup> See proposed NOM Options 3, Section 8(k)(4).

participants as to the priority scheme during the Opening Process. Market Orders will be immediately executed first because these orders have no specified price and Limit Orders will be executed, thereafter, in accordance with the prices specified.

Proposed Options 3, Section 8(k)(7), which is identical to Options 3, Section 8(k)(7), provides that upon opening of an option series, regardless of an execution, the System disseminates the price and size of the Exchange's best bid and offer (BBO). This provision simply makes known the manner in which the Exchange establishes the BBO for purposes of reference upon opening.

Finally, proposed Options 3, Section 8(k)(8) provides that any remaining contracts, which are not priced through the Exchange Opening Price after routing a number of contracts to satisfy better priced away contracts, will be posted to the Order Book at the better of the away market price or the order's limit price. This includes DNR Orders that are not crossed with the Opening Price. Only in the event that ABBO interest, which the DNR Order would otherwise be crossing, has been satisfied by routable interest during the Opening Process would DNR Orders be included within the remaining contracts described in proposed Options 3, Section 8(k)(8).<sup>102</sup> This rule text accounts for orders which have routed away and returned unsatisfied, and also accounts for interest that remains unfilled during the Opening Process, provided that interest was not priced through the Opening Price. Proposed Options 3, Section 8(k)(8) is identical to NTX Options at Options 3, Section 8(k)(8).

The Exchange cancels orders, which are priced through the Opening Price, since it lacks enough liquidity to satisfy these orders on the opening, yet their limit price gives the appearance

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<sup>102</sup> DNR Orders that are not crossed with the Opening Price rest on the Order Book at the better of the ABBO price or the DNR Order's limit order price.

that they should have been executed. The Exchange believes that market participants would prefer to have these orders returned to them for further assessment, rather than have these orders immediately entered onto the Order Book at a price which is more aggressive than the price at which the Exchange opened.

### **Opening Process Cancel Timer**

The Exchange proposes to retain NOM's Opening Order Cancel Timer, which is currently described within Options 3, Section 8(c). The Exchange proposes to relocate this rule text within Options 3, Section 8(l), similar to NTX Options at Options 3, Section 8(l),<sup>103</sup> and rename it "Opening Process Cancel Timer." While the Exchange is retaining the timer, the Exchange proposes to amend the rule text to conform the language to NTX Options' rule text. This process specifies that if an options series has not opened before the conclusion of the Opening Process Cancel Timer, a Participant may elect to have orders returned by providing written notification to the Exchange. The Opening Process Cancel Timer will continue to be posted by the Exchange on its website. Orders submitted through FIX with a TIF of Good-Till-Canceled or "GTC" or "Good-Till-Date Order" or "GTD" may not be cancelled, as is the case today. This provision would provide for the continued return of orders for un-opened options symbols. As is the case today, Participants would have the ability to elect to have orders returned, except for non-GTC and non-GTD Orders, when options do not open. This functionality provides Participants with choice about where, and when, they can send orders for the opening that would afford them the best experience.

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<sup>103</sup> NTX Options does not have Good Till Date Orders currently.

## *Opening Process Examples*

The following examples are intended to demonstrate the Opening Process.

**Example 1. Proposed Options 3, Section 8(f) Opening with a BBO (No Trade).** Suppose the Market Maker in an option enters a quote, 2.00 (100) bid and 2.10 (100) offer and a buy order to pay 2.05 for 10 contracts is present in the System. The System also observes an ABBO is present with CBOE quoting a spread of 2.05 (100) and 2.15 (100). Given the Exchange has no interest which locks or crosses each other and does not cross the ABBO, the option opens for trading with an Exchange BBO of 2.05 (10) x 2.10 (100) and no trade. Since there is a Valid Width NBBO, the System does not conduct the price discovery mechanism and the option opens without delay.

**Example 2a. Proposed Options 3, Section 8(i) Opening with Trade.** Suppose the Market Maker enters the same quote in an option, 2.00 (100) bid and 2.10 (100) offer. This quote defines the Pre-Market BBO. CBOE disseminates a quote of 2.01 (100) by 2.09 (100), making up the ABBO. Firm A enters a buy order at 2.04 for 50 contracts. Firm B enters a sell order at 2.04 for 50 contracts. The Exchange opens with the Firm A and Firm B orders fully trading at an Opening Price of 2.04 which satisfies the condition defined in proposed Options 3, Section 8(i), the Potential Opening Price is at or within the best of the Pre-Market BBO and the ABBO, which is a Valid Width NBBO.

**Example 2b. Proposed Options 3, Section 8(i) Opening with Trade.** Similarly, suppose the Market Maker A enters the same quote in an option, 2.00 (100) bid and 2.10 (100) offer. Market Maker B enters a quote of 2.00 (100) x 2.12 (100). The Pre-Market BBO is therefore 2.00 bid and 2.10 offer. CBOE disseminates a quote of 2.05 (100) by 2.15 (100), making up the ABBO. Firm A enters a buy order at 2.11 for 300 contracts. Firm B enters a sell order at 2.11 for 100 contracts. The option does not open for trading because the Potential Opening Price of 2.11 does not satisfy the condition defined in proposed Options 3, Section 8(i) as the Potential Opening Price is outside the Pre-Market BBO. The System thereafter calculates the OQR and initiates the price discovery mechanism, as discussed in proposed Options 3, Section 8(k) to facilitate the Opening Process for the option.

Assume an allowable OQR of 0.04. When the price discovery mechanism is initiated:

The System broadcasts the first Imbalance Message with a Potential Opening Price of 2.10 and a buy side imbalance of 200 and 100 matched.

The System opens with a trade @ 2.11 with Firm A buying 100 from Market Maker A and another 100 from Firm B; invoking OQR of 0.04 (the maximum value for OQR is the lowest quote offer (2.10) plus 0.04).

**Example 3. Proposed Options 3, Section 8(k) Price Discovery Mechanism and second iteration with routing.** Suppose the Market Maker enters a quote, 2.00 (100) bid and 2.10 (100) offer and the defined allowable OQR is 0.04. If CBOE disseminates a quote of 2.00 (100) by 2.09 (100), the away offer is better than the Market Maker quote. Public Customer

A enters a routable buy order at 2.10 for 150 contracts. The price discovery mechanism initiates because the Potential Opening Price (2.10) is equal to the Pre-Market BBO but outside of the ABBO. The Potential Opening Price is 2.10 because there is both buy and sell interest at that price point. The System is unable to open after the first iteration of Imbalance since the Potential Opening Price is within the OQR but outside of the ABBO. The System proceeds with the price discovery mechanism and initiates a Route Timer and broadcasts a second Imbalance Message (assume no additional interest is received during the imbalance period). The System opens the option for trading after the Route Timer has expired and the Imbalance Timer has completed since the Potential Opening Price is within OQR. The System routes 100 contracts of the Public Customer order to the better priced away offer at CBOE. The Exchange would route to CBOE at an Opening Price of 2.10 to execute against the interest at 2.09 on CBOE. The 50 options contracts open and execute on the Exchange with an Opening Price of 2.10. The Exchange routes to CBOE using the Exchange's Opening Price to ensure, if there is market movement, that the routed order is able to access any price point equal to or better than the Exchange's Opening Price.

### **Options 3, Section 9**

The Exchange proposes to amend Options 3, Section 9, Trading Halts to amend certain rule text so that it is identical to rule text ISE, GEMX and MRX Options 3, Section 9.

Specifically, the Exchange proposes to amend Options 3, Section 9(a)(6)(B) to amend the word "cancelled" to "not maintained" to conform to the rule text in NTX Options at Options 3, Section 9(a)(6)(B). This amendment is not substantive but intended to conform to the rules of NTX Options to indicate that quotes are not maintained during a trading halt.

The Exchange proposes to amend Options 3, Section 9(d)(1) to change the word "Exchange" to "System" which more precisely describes the functionality.

The Exchange proposes to amend Options 3, Section 9(d)(2) to describe the manner in which the newly adopted Stop Order will be treated during a trading halt. The proposed text is identical to ISE, GEMX and MRX Options 3, Section 9(d)(3). The Exchange proposes to add this sentence to Options 3, Section 9(d)(2), "Provided the Exchange has opened an affected option for trading, the Exchange shall elect Stop Orders if the condition as provided in Options 3, Section 7(d) is met, and, because they become Market Orders, shall cancel them back and notify

Participants of the reason for such rejection.” Stop Orders would become elected as provided for in proposed Options 3, Section 7(d).<sup>104</sup> If they elect as Market Orders, those Market Orders would be rejected. This aligns with the current treatment for Market Orders during a trading halt.

Finally, to align with the changes made to Options 3, Section 8, the Exchange also proposes to amend Options 3, Section 9(f) to align the current rule text to NTX Options at Options 3, Section 9(f). NOM current Options 3, Section 9(f) states, “The Exchange shall nullify any transaction that occurs with respect to equity options (including options overlying ETFs), during a regulatory halt as declared by the primary listing market for the underlying security.” The Exchange proposes to amend that rule text to instead provide,

Resumption of Trading After a Halt. Trading in an option that has been the subject of a halt under this Rule shall be resumed upon the determination by Nasdaq Regulation, that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Trading shall resume according to the process set forth in Options 3, Section 8 of these rules.

This new rule text provides more specificity as to the manner in which a trading halt shall be resumed and the governing rule for resumption after a halt.

### **Options 3, Section 10**

In addition to the amendments to Options 3, Section 10 that have been described for the addition of an LMM, the Exchange proposes other amendments to NOM Options 3, Section 10, Order Book Allocation.

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<sup>104</sup> As proposed in NOM Options 3, Section 7(d), a Stop Order becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

First, the Exchange proposes to change the word “Nasdaq” to “NOM” in Options 3, Section 10(a) and to include the word “Process” after “Opening” in Options 3, Section 10(a)(5).

Second, the Exchange proposes to add the following sentence to further describe the allocation of Reserve Orders, which have both displayed and non-displayed interest. The Exchange proposes to state, “Allocation of displayed interest shall occur before allocation of non-displayed interest at each price level.”

Third, the Exchange proposes to amend the description of Size Pro-Rata to account for the addition of Reserve Orders that were described in the order types section. Currently, NOM Options 3, Section 10(a)(1)(B) states,

The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded down to the nearest whole number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining Participants in time priority.

The Exchange proposes to instead provide,

The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the same price, the System allocates contracts from an incoming order or quote to resting orders and quotes beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price. If the result is not a whole number, it will be rounded up to the nearest whole number. If there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining.

The Exchange proposes to amend the definition of Size Pro-Rata to account for the non-displayed portions of a Reserve Order. The proposed new text describes the allocation methodology for display order portion of Reserve Order as well as any other order type, resting orders and quotes beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price. Next, the proposed rule provides how non-displayed orders are allocated. If there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining. This rule text, which is identical to NTX Options at Options 3, Section 10(a)(1)(B), will provide Participants with a description of the handling of Reserve Orders with respect to allocation.

Third, the Exchange proposes to amend the rounding methodology from down to up similar to all other Nasdaq affiliated options markets.

The Exchange proposes to amend Options 3, Section 10(a)(5) related to Zero-Bid Option Series. Today, Options 3, Section 10(a)(5) provides,

In the case where the bid price for any options contract is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Options 3, Section 3. Orders will be placed on the limit order book in the order in which they were received by the System. With respect to market orders to sell which are submitted prior to the Opening and persist after the Opening, those orders are posted at a price equal to the minimum trading increment as defined in Options 3, Section 3.

The Exchange proposes to amend Options 3, Section 10(a)(5) to account for Price Improving Orders that are entered in increments smaller than the minimum price variation<sup>105</sup> to properly account for the manner in which Market Orders are handled in NOM. Today, NOM accepts Market Orders and handles them in the same manner as a Price Improving Order by considering them to sell in increments smaller than the minimum price variation such as a Market Order priced at \$0.01.

While NOM may accept orders in increments smaller than the minimum price variation, the current rule text only considers prices equal to the minimum trading increment. In order to account for these smaller increments, the Exchange proposes to amend the current text to account for Price Improving Orders by stating that in the case where the bid price for any options contract is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to *\$0.01 and displayed at* the minimum trading increment as defined in Options 3, Section 3. This amendment is intended to bring greater clarity to the Exchange's rules.

### **Options 3, Section 15**

The Exchange proposes to amend Options 3, Section 15, Risk Protections.

#### **Order Price Protection**

The Exchange proposes to amend its Order Price Protection (“OPP,” also known as the fat finger check) in NOM Options 3, Section 15(a)(1) to capitalize “limit order.” The Exchange also proposes to remove the following text, “OPP applies to all options but does not apply to

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<sup>105</sup> A Price Improving Order is an order to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. See current Options 3 Section 7(a)(5).

Intermarket Sweep Orders. OPP does not apply to orders entered through QUO.” With the proposed amendment to the ISO order type in Options 3, Section 7(b)(3), OPP will apply to ISOs. As noted previously in the QUO discussion, since QUO (renamed OTTO) will allow for the submission of orders, OPP would apply to those orders entered through the protocol.

### **Market Wide Risk Protection**

The Exchange proposes to introduce new order entry and execution rate checks identical to those on NTX Options at Options 3, Section 15(a)(3) for Market Wide Risk Protection. These new risk protections are designed to aid Participants in their order risk management by supplementing current price reasonability checks with activity-based order protections.<sup>106</sup> The Exchange proposes to detail these risk protections in proposed Options 3, Section 15(a)(3), entitled “Market Wide Risk Protection” or “MWRP”. As proposed, the System will maintain one or more counting programs for each Participant that counts orders entered and contracts traded on NOM. Participants may use multiple counting programs to separate risk protections for different groups established within the Participant. The counting programs will maintain separate counts, over rolling time periods specified by the Participant for each count, of: (1) the total number of orders entered in the order book; and (2) the total number of contracts traded.

All Participants must provide parameters for the order entry and execution rate protections as described in (1) and (2) above. While the MWRP is mandatory for all Participants, the Exchange is not proposing to establish minimum or maximum values for the order entry and execution parameters described above. The Exchange believes that this approach will give Participants the flexibility needed to appropriately tailor the MWRP to their respective

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<sup>106</sup> The Exchange currently provides Participants with price protections for orders such as the OPP and the Market Order Spread Protection, which prevent limit orders and market orders from being executed at far away and potentially erroneous prices.

risk management needs. In this regard, each Participant is in the best position to determine risk settings appropriate for their firm based on the Participant's trading activity and business needs. In the interest of maintaining a fair and orderly market, however, the Exchange will also establish default values for each of these parameters<sup>107</sup> that apply to Participants that do not submit their own parameters for the MWRP and will announce these default values in an Options Trader Alert to be distributed to Participants. This approach is consistent with NOM's current functionality and would provide Participants with the flexibility to establish their own MWRP order entry and execution rate parameters. Similar to NTX Options, Participants will have the discretion to establish the applicable time period for each of the counts maintained under the proposed MWRP, provided that the selected time period must be within the minimum and maximum duration of the applicable time period established by the Exchange and announced via an Options Trader Alert.<sup>108</sup>

Pursuant to proposed Options 3, Section 15(a)(3)(A) – (C), if, during the applicable time period, the Participant exceeds the thresholds that it has set for any of the order entry or execution counts described above on NOM, the System will automatically reject all subsequent incoming orders entered by the Participant. Participants may also choose to have the System automatically cancel all of their existing orders on NOM when the MWRP is triggered. The MWRP will remain engaged until the Participant manually notifies the Exchange to enable the acceptance of new orders. For Participants that still have open orders on the order book that have not been cancelled pursuant to proposed subparagraph (B), the System will continue to allow those Participants to interact with existing orders entered before the protection was

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<sup>107</sup> See supra note 89.

<sup>108</sup> See proposed NOM Options 3, Section 15(a)(3). See also NTX Options at Options 3, Section 15(a)(3).

triggered, including sending cancel order messages and receiving trade executions for those orders. The revised language in proposed subparagraphs (A) – (C) is identical to NTX Options at Options 3, Section 15(a)(3)(C).

The Exchange believes that the proposed MWRP will assist Participants in better managing their risk when trading on NOM. In particular, the proposed rule change provides functionality that allows Participants to set risk management thresholds for the number of orders or contracts executed on the Exchange during a specified period. As discussed above, this is identical to how NTX Options has implemented the MWRP, and the Exchange believes this functionality will likewise be beneficial for NOM Participants.

The examples below illustrate how the MWRP would work both for order entry and order execution protections:

Example: Order Entry Rate Protection:

Broker Dealer 1 (“BD1”) designates an allowable order rate of 499 orders / 1 second.

@0 milliseconds, BD1 enters 200 orders. (Order total: 200 orders)

@450 milliseconds, BD1 enters 250 orders. (Order total: 450 orders)

@950 milliseconds, BD1 enters 50 orders. (Order total: 500 orders)

Market Wide Risk Protection is triggered on NOM due to exceeding 499 orders in 1 second. All subsequent orders are rejected, and if BD1 has opted into this functionality, all existing orders are cancelled. BD1 must contact the Exchange to resume trading.

Example: Order Execution Rate Protection

BD1 designates an allowable execution rate of 15,000 contracts / 2 seconds.

@0 milliseconds, BD1 receives executions for 5,000 contracts.

(Execution total: 5,000 contracts)

@600 milliseconds, BD1 receives executions for 10,000 contracts.

(Execution total: 15,000 contracts)

@1550 milliseconds, BD1 receives executions for 2,000 contracts.

(Execution total: 17,000 contracts)

Market Wide Risk Protection is triggered on NOM due to exceeding 15,000 contracts in 2 seconds. All subsequent orders are rejected, and if BD1 has opted into this functionality, all existing orders are cancelled. BD1 must contact the Exchange to resume trading.

### **Acceptable Trade Range**

The Exchange proposes to amend the Acceptable Trade Range or “ATR” at Options 3, Section 15(b)(1) to note that ATR commences after the Opening Process as this risk protection does not currently apply during the Opening Halt Cross. This additional rule text provides greater clarity to the rule. Today, the ATR risk protection is not available during the Opening Halt Cross. The Exchange also proposes to add the concept of “internal BBO” into the ATR rule. The Exchange proposes to update the reference price definition to provide that upon receipt of a new order or quote, the reference price will now be the **better of the NBB** or internal best bid for sell orders/quotes and the **better of the NBO** or internal best offer for buy orders/quotes or the last price at which the order/quote is posted, whichever is higher for a buy order/quote or lower for a sell order/quote. This rule text reflects current functionality and the additional of the language makes clear the intent of the rule text. The Exchange proposes to note that currently, the ATR is not available for All-or-None Orders. It would be difficult, from a technical standpoint, to apply this feature to those orders because their particular contingency makes it difficult to automate their handling. The Exchange proposes this rule text to note similar to, ISE, GEMX and MRX Options 3, Section 15(a)(2)(A)(i) that the Acceptable Trade Range is not available for All-or-None Orders.<sup>109</sup>

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<sup>109</sup> Similar to Phlx, ISE, GEMX and MRX All-or-None Orders are immediate or cancel. See ISE, GEMX and MRX Options 3, Section 7(c).

The Exchange proposes to add a missing “or” in Options 3, Section 15(b)(1)(A). The Exchange also proposes to amend the remainder of the rule text so that the rule text is similar to ISE, GEMX and MRX Options 3, Section 15(a)(2)(A)(i). The amendments are non-substantive and are merely text changes to conform the language to other Nasdaq affiliated markets. The amended rule text would state,

If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order/quote or an updated NBB for buy orders/quotes or the NBO for sell orders/quotes (whichever is higher for a buy order/quote or lower for a sell order/quote) then becomes the reference price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted after the Posting Period, a new Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Threshold Price, unless a Participant has requested that their quotes or orders be returned if the quotes or orders would post at the outer limit of the Acceptable Trade Range (in which case, the quotes or orders will be returned). This process will repeat until either (i) the order/quote is executed, cancelled, or posted at its limit price or (ii) the order/quote has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

Additionally, the Exchange proposes to account for quotes, in addition to orders in Options 3, Section 15(b)(1)(B) in the sentence that provides, “If the order/quote remains unexecuted after the Posting Period, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a Participant has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned).” In addition to orders, quotes are also subject to a request to be returned if posted at the outer limit of the Acceptable Trade Range. The addition of quotes clarifies the current System functionality.

### **Anti-Internalization**

The Exchange proposes technical amendments to the Anti-Internalization rule text. The Exchange proposes to capitalize “market maker” and add the word “Exchange” and “firm” to add more context to the current rule text. These amendments are non-substantive.

### **Quotation Adjustments**

The Exchange proposes to enhance the risk protection tools available to Market Makers and Groups by introducing a new method of establishing and monitoring for risk parameters that will be offered as an alternative to existing Rapid Fire risk parameters, thereby supporting a Market Maker’s ability to manage their risk on the Exchange, and also providing them with flexibility to use additional tools to manage risk. While the passive (Rapid Fire) and active (Active QP) risk counter functionality will be mutually exclusive on each badge, Market Makers will still be able to use both to cover their activity on the Exchange by getting multiple badges and setting each risk counter by badge. The Exchange believes that offering more risk management tools to Market Makers would mitigate their exposure to excessive risk. The Exchange further believes that having the new Active Quote Protection functionality leverage the existing Multi-Trigger functionality will similarly support a Market Maker’s ability to manage their risk on the Exchange by including Active Quote Protection purge events to the Multi-Trigger counter. Today, Multi-Trigger is designed to assist Market Makers or a Group in managing their market risk by tracking the number of Purge Events relative to the market-wide parameter set by the Market Maker or the Group. The Exchange therefore believes that tracking the number of Active Quote Protection purge events for a Market Maker against its Multi-Trigger Threshold would be similarly useful for managing market risk so that they can provide deep and liquid markets to the benefit of all investors.

The Exchange proposes to adopt a new optional active risk counter functionality called Active Quote Protection at Options 3, Section 15(c)(2)(B). The Active Quote Protection which will be available to Market Makers as an alternative to existing passive risk counter functionality described in Options 3, Section 15(c)(2)(A) is proposed to be titled “Rapid Fire.”<sup>110</sup> The proposed Active Quote Protection functionality will be identical to the active risk counter functionality on NTX Options, which currently allows users to actively decrement the risk counter by a specified amount at any time, rather than waiting until a risk limit is reached or the user otherwise sends a specific instruction to the exchange to completely reset the counting program.<sup>111</sup>

Today, the Exchange requires Market Makers to configure risk exposure thresholds based on either percentage of executed quotes (“Percentage Threshold”) or total number of executed contracts (“Volume Threshold”). The Exchange also offers two optional risk exposure thresholds based on the absolute value of the difference between long and short positions (“Delta Threshold”), and absolute value of the difference between contracts bought and contracts sold (“Vega Threshold”) (collectively, “Thresholds”).<sup>112</sup> As set forth in Options 3, Section 15(c)(2)(A), the System tracks each Threshold with a corresponding risk counter over a Market Maker-specified rolling time period not to exceed 30 seconds. Furthermore, Options 3, Section 15(c)(2)(A) describes that when a risk counter exceeds the corresponding Threshold during the specified time period, the System would automatically remove the Market Maker's quotes in all

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<sup>110</sup> As described below, the Exchange will specifically define this passive risk counter functionality as “Rapid Fire” within this Rule.

<sup>111</sup> See NTX Options at Options 3, Section 15(c)(2)(A).

<sup>112</sup> The proposed Thresholds are described in detail at proposed Options 3, Section 15(c)(2)(A)(i)-(iv). If a Market Maker does not provide a parameter for each Threshold, the Exchange will apply default parameters announced to Participants.

series of the applicable options class (each, a “Purge Event”). As a result of a Purge Event, the corresponding risk counter and Threshold would reset upon such removal. Today, pursuant to Options 3, Section 15(c)(2)(D), the Thresholds and risk counters can be completely reset if the Market Maker specifically requests the System to remove quotes in all options series in an underlying issue. This risk protection is passive in that the risk counters wait to reset until the expiry of a specified time period, a Purge Event, or when the Market Maker otherwise sends a specific instruction to the Exchange to remove quotes to completely reset the counters.

The Exchange now proposes to introduce a new risk protection called Active Quote Protection that would enable Market Makers to actively manage their executed contract limit (“Contract Limit”) by sending an electronic instruction to the Exchange to decrement their executed contract limit counter (“Limit Counter”) by a specified amount at any time, rather than waiting until the expiry of a defined time period, when the risk limit is exceeded (like a Purge Event), or when the Market Maker otherwise sends a specific instruction to purge quotes to completely reset the risk counter.<sup>113</sup>

The Contract Limit, as set by the Market Maker, would apply for the duration of the trading day. Once the Market Maker’s Limit Counter exceeds the Contract Limit set by the Market Maker, the System would automatically remove quotes in all series of the applicable options class submitted through the Exchange’s SQF protocol, identical to how the quote removal mechanism works for a Purge Event today.<sup>114</sup> Today, Purge Events are triggered under the existing Quotation Adjustments on the first execution that exceeds the applicable Threshold.

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<sup>113</sup> If the Market Maker opting to use Active Quote Protection does not provide a Contract Limit at the outset, the Exchange will apply a default parameter for the Active Quote Protection Contract Limit (which would be announced to Participants). The Exchange will initially set the default Contract Limit at 100 contracts.

<sup>114</sup> See NOM Options 3, Section 15(c)(2)(C) (renumbered as Section 15(c)(2)(D) under this proposal, as noted below).

Once an execution occurs, the System checks all Thresholds to see if they have been exceeded. If exceeded, the Market Maker's quote would be purged pursuant to Options 3, Section 15(c)(2)(D). In order to remain consistent with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS, any marketable orders or quotes that are executable against a Market Maker's quotes that are received<sup>115</sup> prior to the time the applicable Threshold is triggered will be automatically executed up to the size of the Market Maker's quote, regardless of whether the execution would cause the Market Maker to exceed their pre-set Percentage Threshold, Volume Threshold, Delta Threshold, or Vega Threshold.<sup>116</sup>

Under Active Quote Protection, the System would similarly handle the Market Maker's quote in that the quote could be filled one execution over the Contract Limit before the Market Maker's remaining quotes are cancelled by the System in order to be consistent with the firm quote obligations under Rule 602 of Regulation NMS. Specifically, any marketable orders or quotes that are executable against a Market Maker's quotes that are received prior to the time the Contract Limit is triggered will be automatically executed up to the size of the Market Maker's quote, regardless of whether the execution would cause the Market Maker to exceed the Contract Limit.

Additionally, under Active Quote Protection, Market Makers will be able to submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero.<sup>117</sup> Market Makers that elect to use the proposed Active

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<sup>115</sup> The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

<sup>116</sup> See current Options 3, Section 15(c)(2)(C)(ii). The Exchange will renumber this as Section 15(c)(2)(D)(ii) and clarify this provision in the manner described later in this filing.

<sup>117</sup> In order to re-enter the System after their quotes are purged pursuant to the Active Quote Protection, Market Makers will need to submit the same request to fully decrement their Limit Counter to zero.

Quote Protection on a badge<sup>118</sup> will not be able to use the existing Threshold risk protections described above on the same badge (i.e., the active and passive risk counter functionality would be mutually exclusive per badge) given that it would be unnecessarily complex to implement from a technology standpoint. Market Makers may be associated with multiple badges today, so if they want to use both risk protections for their activity on the Exchange, they will be able to set either the active or passive risk counter functionality on each one.

To effectuate the foregoing changes, the Exchange proposes to set forth the new risk protection in paragraph (B) of Options 3, Section 15(c)(2), as follows:<sup>119</sup>

In lieu of Rapid Fire, a Market Maker may provide an executed contract limit (“Contract Limit”) that, if exceeded, the System will automatically remove the Market Maker’s quotes in all series of an options class submitted through SQF. The System will apply the Contract Limit for the duration of the trading day. For each class of options, the System will maintain an active limit counter that will track the current number of contracts executed through the Market Maker’s quotes (“Limit Counter”). If the Limit Counter exceeds the Contract Limit established by the Market Maker, the System will automatically remove the Market Maker’s quotes as described in paragraph (D) below. Market Makers may submit a request (i) to decrement their Limit Counter by a specified number of contracts, or (ii) to fully decrement their Limit Counter to zero, including to re-enter the System as described in paragraph (F) below.

The Exchange also proposes to amend current paragraph (F) (renumbered to paragraph (G) under this proposal) of Options 3, Section 15(c)(2) to specify that the active and passive risk counter functionality will be mutually exclusive per badge). As amended, proposed paragraph (G) will provide:

The Exchange will require NOM Market Makers to utilize the Percentage Threshold, the Volume Threshold, or the Contract Limit. For Market Makers that elect to utilize the Contract Limit, the Percentage Threshold, Volume Threshold, Delta Threshold, and Vega

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<sup>118</sup> The term “badge” means an account number, which may contain letters and/or numbers, assigned to NOM Market Makers. A NOM Market Maker account may be associated with multiple badges. See Options 1, Section 1(a)(5).

<sup>119</sup> As a result, the Exchange will also renumber existing paragraphs (C) – (F) as proposed paragraphs (D) – (G).

Threshold will not be available for use on the Market Maker's badge. The Delta, Vega and Multi-Trigger Thresholds are optional.

As described above, once the Limit Counter exceeds the Contract Limit set by the Market Maker under the proposed Active Quote Protection, the System would automatically remove quotes in the same manner as currently specified for a Purge Event in proposed paragraph (D) of Options 3, Section 15(c)(2). Accordingly, the Exchange proposes to add Active Quote Protection's Contract Limit throughout this Rule. Specifically, proposed paragraph (D) will provide that the System will automatically remove quotes in all series of an options class in an underlying security when the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or the Contract Limit has been exceeded. The System will automatically remove quotes in all series of an option class in all underlying securities when the Multi-Trigger Threshold<sup>120</sup> has been exceeded. The System will send a Purge Notification Message to the NOM Market Maker for all affected options when the above thresholds have been exceeded. Proposed subparagraph (D)(i) will provide that the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, Contract Limit, and Multi-Trigger Threshold are considered independently of each other.

Further, as discussed above, any marketable orders or quotes that are executable against a Market Maker's quotes that are received<sup>121</sup> prior to the time the applicable Threshold or Contract Limit is triggered will be automatically executed up to the size of the Market Maker's quote, even if such execution would cause the Market Maker to exceed any of their pre-set risk limits

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<sup>120</sup> Multi-Trigger Threshold is defined in current paragraph (B) (proposed paragraph (D)) of Section 15(c)(2) as the number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated NOM protocols as specified by the Exchange. This threshold is part of the Exchange's Multi-Trigger risk protection.

<sup>121</sup> The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

with respect to any of the foregoing risk parameters. The current related Rule in sub-paragraph (C)(ii) only mentions that quotes will execute up to the Market Maker's size and is silent on marketable orders. In addition, the current Rule does not specify the time of receipt of such marketable interest that is executable against the size of the Market Maker's quote. As such, the Exchange proposes to add this specificity in proposed sub-paragraph (D)(ii) to better describe how the System operates today for Quotation Adjustments and how the System will operate for proposed Active Quote Protection. In particular, sub-paragraph (D)(ii) will provide:

The System will execute any marketable orders or quotes that are executable against a Market Maker's quote and received prior to the time the Percentage Threshold, Volume Threshold, Delta Threshold, Vega Threshold, or Contract Limit is triggered up to the size of the Market Maker's quote, even if such execution results in executions in excess of the Market Maker's applicable Threshold or Contract Limit with respect to any parameter.

In addition, when the System removes quotes as a result of exceeding the Contract Limit under Active Quote Protection, the Exchange proposes to require the Market Maker to submit a request to re-enter the System. This request will be the same type of message as the request described in proposed paragraph (B) where the Market Maker must request to fully decrement their Limit Counter back to zero in order to re-enter the System. This requirement will be added in proposed paragraph (F) of Options 3, Section 15(c)(2), and will be similar to how the existing quote purge mechanism works for the Thresholds today, except the Market Maker needs to send a separate message (i.e., a re-entry indicator) to re-enter the System when their quotes are purged as a result of exceeding any of the existing Thresholds.

The Exchange also proposes that the new Active Quote Protection would leverage the existing multi-trigger ("Multi-Trigger") functionality currently set forth in Options 3, Section 15(c)(2)(B) (renumbered as Section 15(c)(2)(C) under this proposal). Today, Multi-Trigger is a risk protection offered alongside the current Quotation Adjustments. A NOM Market Maker or

NOM Market Maker Group, which is defined as multiple affiliated NOM Market Makers,<sup>122</sup> may provide the specified time period and number of allowable Purge Events by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated NOM protocols as specified by the Exchange (“Multi-Trigger Threshold”). Multi-Trigger is triggered when during a time period established by the Market Maker not to exceed 30 seconds, the total number of Quotation Adjustment Purge Events exceeds the Multi-Trigger Threshold provided to the Exchange by the NOM Market Maker or NOM Market Maker Group. When Multi-Trigger is triggered, the System automatically purges all of the Market Maker’s or Group’s quotes in all options series in an underlying issue. As set forth in current Options 3, Section 15(c)(2)(E) (renumbered to Section 15(c)(2)(F) under this proposal), when the System removes quotes as a result of the Multi-Trigger Threshold, the Market Maker must manually request re-entry to the System by contacting the Exchange. Exchange staff must then set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the NOM Market Maker or Group for all options series in all underlying issues. The Market Maker’s Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker’s Clearing Firm has requested to receive such notification.

Today, Multi-Trigger is meant to provide Market Makers or a Group with protection from the risk of multiple executions across multiple series of an option or across multiple options. This risk protection recognizes that risk to Market Makers is not limited to a single series in an option or even to all series in an option; Market Makers that quote in multiple series

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<sup>122</sup> A Group would be comprised of NOM Options Market Makers affiliated with one Participant (i.e., one NOM Options Participant). The Participant would be required to define a Group by providing a list of such affiliated NOM Options Market Makers to the Exchange.

of multiple options have significant exposure, requiring them to offset or hedge their overall positions. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. Multi-Trigger is therefore intended to assist Market Makers or Groups in managing their market risk by tracking the number of Purge Events relative to the Multi-Trigger Threshold set by the Market Maker or Group. The Exchange believes that tracking the number of Active Quote Protection Purge Events for a Market Maker or Group against its Multi-Trigger Threshold would be similarly useful for managing market risk.

To that end, the Exchange proposes to update Multi-Trigger to add purge events under Active Quote Protection to the Multi-Trigger counter such that Active Quote Protection purge events and Purge Events under the current Quotation Adjustments will be aggregated together as counting toward the specified Multi-Trigger Threshold. Accordingly, the Exchange proposes to add references to the Active Quote Protection rule (i.e., proposed paragraph (B) of Options 3, Section 15(c)(2)) throughout the Multi-Trigger rule in proposed paragraph (C), specifically:

A NOM Market Maker or NOM Market Maker Group (multiple affiliated NOM Market Makers is a “Group” as defined by a NOM Participant and provided by such Participant to the Exchange) may provide a specified time period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated NOM protocols as specified by the Exchange (“Multi-Trigger Threshold”). During a specified time period established by the NOM Market Maker not to exceed 30 seconds (“Multi-Trigger Specified Time Period”), the number of times the System automatically removes the NOM Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage Threshold described in paragraph (A)(i) above, the Volume Threshold described in paragraph (A)(ii) above, the Delta Threshold described in paragraph (A)(iii) above, and the Vega Threshold described in paragraph (A)(iv) above, and the Contract Limit described in paragraph (B) above. Once the System determines that the number of triggers equals or exceeds a number established by either the NOM Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically

remove all quotes in all options series in all underlying issues for that NOM Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes in all options series in an underlying issue. A Multi-Trigger Specified Time Period will commence after every trigger of the Percentage Threshold, Volume Threshold, Delta Threshold, or Vega Threshold, or Contract Limit, and will continue until the System removes quotes as described in paragraph (D) below or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the NOM Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

The following example illustrates the proposed behavior of the Active Quote Protection risk protection:

Market Maker AAPL

Contract Limit: 100

- Market Maker trades a transaction for 10 contracts in AAPL; Limit Counter goes from 0 to 10.
- Market Maker sends a request to decrement its Limit Counter in AAPL for 10 contracts; Limit Counter goes from 10 to 0.
- Market Maker trades a transaction for 20 contracts in AAPL; Limit Counter goes from 0 to 20.
- Market Maker trades a transaction for 50 contracts in AAPL; Limit Counter goes from 20 to 70.
- Market Maker sends a request to decrement its Limit Counter in AAPL for 20 contracts; Limit Counter goes from 70 to 50.
- Market Maker trades a transaction for 60 contracts in AAPL; Limit Counter goes from 50 to 110 and all Market Maker quotes in AAPL are automatically purged after

the execution because the Limit Counter exceeded the Market Maker's Contract Limit of 100 executed contracts.

- At this point, the Market Maker must send a request to fully decrement its Limit Counter in AAPL back to zero in order to begin quoting again.

The following example illustrates how Multi-Trigger will work with the proposed Active Quote Protection functionality:

- Assume Market Maker in AAPL and SPY has Quotation Adjustments set for AAPL and Active QP set for SPY.
- Market Maker sets its Multi-Trigger Threshold so that it is triggered at 25 purge events within a 20 second time period.
- On a given trading day, if an Active Quote Protection Purge Event is triggered 15 times in SPY and a Quotation Adjustment Purge Event is triggered 10 times in AAPL, all within 20 seconds, then the Exchange will automatically remove all of the Market Maker's quotes AAPL and SPY.

#### Technical Amendments

The Exchange proposes a few technical, non-substantive amendments in Options 3, Section 15(c)(2). With the addition of the new Active Quote Protection rule in proposed paragraph (c)(2)(B), the Exchange proposes to renumber existing paragraphs (B) – (F) as proposed paragraphs (C) – (G) and make related changes to update existing cross-cites within Section 15(c)(2). The Exchange also proposes in paragraph (A) to correct the current cross-cites to paragraphs (B) and (C) to paragraphs (D) and (E) because the Exchange originally intended to refer to how the System removes quotes either pursuant to a Purge Event (which is governed by proposed paragraph (D)) or pursuant to a Market Maker specifically requesting the System to

remove quotes in all series of an underlying issue (which is governed by proposed paragraph (E)). The Exchange proposes to reword the rule text within proposed Options 3, Section 15(c)(2)(D) to replace the term “options” with the words “series of an options class” to conform the wording in this paragraph to other rule text with Options 3, Section 15. Additionally, the Exchange proposes to add the words “or Group” to Options 3, Section 15(c)(2)(F) because a Group may also request re-entry pursuant to proposed Options 3, Section 15(c)(2)(C) and would receive a Reentry Notification Message.

Lastly, the Exchange proposes to title paragraph (A) as “Rapid Fire” and paragraph (C) as “Multi-Trigger” to more clearly identify which rules apply to which risk protections.

#### **Post-Only Quoting Protection**

The Exchange proposes to amend the Post-Only Quoting Protection at Options 3, Section 15(c)(3) to remove references to QUO because, as proposed for amendment, QUO (renamed OTTO) would permit order entry and would no longer treat orders as quotes, therefore the Post-Only Quoting Protection would be inapplicable to the protocol. Additionally, the Exchange proposes to remove the unnecessary phrase “as is the case today.”

#### **Options 3, Section 17**

The Exchange proposes to amend the Kill Switch at Options 3, Section 17. The Kill Switch provides Participants with an optional risk management tool to promptly cancel and restrict orders. The Exchange proposes to align its Kill Switch rule text with ISE’s, GEMX’s and MRX’s Kill Switch<sup>123</sup> and also add references to QUO (renamed OTTO) as the proposed amended protocol would permit order entry. The Exchange proposes to note in Options 3, Section 17(a) that NOM Participants may initiate a message(s) to the System to promptly cancel

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<sup>123</sup> See ISE, GEMX and MRX Options 3, Section 17.

and restrict their order activity on the Exchange, as is the case today, as described in section (a)(1). This amendment simply rewords the rule text without a substantive amendment to the rule text.

The Exchange proposes to renumber Options 3, Section 17(a)(i) and (ii) as (a)(1) and (2). Current Options 3, Section 17(a)(i) states, “If orders are cancelled by the NOM Participant utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The NOM Participant will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(ii).” The Exchange proposes to instead provide, “A NOM Participant may submit a request to the System through FIX or OTTO to cancel all existing orders and restrict entry of additional orders for the requested Identifier(s) on a user level on the Exchange.” With the amendment of QUO (renamed OTTO), the protocol would permit order entry, therefore the Exchange proposes to note that both FIX and OTTO orders may be cancelled.

Today, NOM Participants utilize an interface to send a message to the Exchange to initiate a Kill Switch. The Exchange proposes, in lieu of the interface, to permit NOM Participants to initiate a cancellation of their orders by sending a mass purge request. Since QUO (renamed OTTO), as amended, would be utilized for order entry, the Exchange proposes to note that a mass purge request may be sent through FIX or OTTO. This change will align the Kill Switch functionality to that of ISE, GEMX and MRX Options 3, Section 17 and will enable NOM Participants to initiate the Kill Switch more seamlessly without the need to utilize a separate interface. As proposed, when initiating a cancellation of their orders. Participants may send a mass purge request through FIX or OTTO and they would be able to submit a Kill Switch request on a user level only. Today, Participants may cancel orders on either a user or group

level<sup>124</sup> with the interface, therefore, permitting the Kill Switch request on a user level only is a System change. The Exchange proposes to amend Options 3, Section 17(a) to note this change to user level only by removing the words “or group” and the following sentence that applies to a group.<sup>125</sup>

Finally, the Exchange proposes to amend proposed Options 3, Section 17(a)(2) to align to ISE’s, GEMX’s and MRX’s rule text by providing “Once a NOM Participant initiates a Kill Switch pursuant to (a)(1) above...” in the first sentence. This amendment simply rewords the rule text without a substantive amendment to the rule text.

### **Options 3, Section 18**

The Exchange proposes to amend Options 3, Section 18, Detection of Loss of Communication. The Exchange proposes to add QUO (renamed OTTO) to Options 3, Section 18 because, as amended, the protocol will permit the submission of orders. Today, when the SQF Port or the FIX Port detects the loss of communication with a Participant’s Client Application because the Exchange’s server does not receive a Heartbeat message for a certain time period, the Exchange will automatically logoff the Participant’s affected Client Application and automatically cancel all of the Participant’s open quotes through SQF and open orders through FIX. Quotes and orders are cancelled across all Client Applications that are associated with the same NOM Options Market Maker ID and underlying issues.

Also, in line with the renaming of QUO to OTTO, the Exchange proposes to rename the QUO protocol in Options 3, Section 18 to align with the name change. As amended, QUO

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<sup>124</sup> A permissible group could include all badges associated with a Market Maker. Today, a Participant is able to set up these groups in the interface to include all or some of the Identifiers associated with the Participant firm so that a GUI Kill Switch request could apply to this pre-defined group.

<sup>125</sup> The Exchange proposes to remove this sentence, “Permissible groups must reside within a single broker-dealer” as the group option would no longer exist.

(renamed OTTO) would permit orders to be cancelled similar to FIX orders when the Exchange's server does not receive a Heartbeat message for a certain time period. The Exchange proposes to amend Options 3, Section 18 to also rearrange the rule text to add the word "Definitions" next to "a" and move the rule text in current "a" to "b" and re-letter the other paragraphs accordingly. Also, the Exchange proposes to define "Session of Connectivity" for purposes of this rule to mean each time the Participant connects to the Exchange's System. Further, each new connection, intra-day or otherwise, is a new Session of Connectivity. The Exchange proposes to use the new definition throughout Options 3, Section 18 and update citations.

Similar to FIX, when the OTTO Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period, the Exchange will automatically log-off the Participant's affected Client Application and automatically cancel all of the Participant's open orders through OTTO. Orders would be cancelled across all Client Applications that are associated with the same NOM Options Market Maker ID and underlying issues. The Exchange proposes to update Options 3, Section 18 to provide in proposed Options 3, Section 18(a)(3) that the OTTO Port is the Exchange's proprietary System component through which Participants communicate their orders from the Client Application. Further, the Exchange would note in proposed Options 3, Section 18(c) that when the OTTO Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to proposed Section 18(f), automatically cancel all orders. Proposed Options 3, Section 18(f)

would provide that the default period of “nn” seconds for OTTO Ports would be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. A Participant may determine another time period of “nn” seconds of no technical connectivity, as required in proposed paragraph (c), to trigger the disconnect and, if so elected, the removal of orders and communicate that time to the Exchange. The period of “nn” seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for OTTO Ports prior to each Session of Connectivity to the Exchange. This feature may be disabled for the removal of orders; however, the Participant will be disconnected.

Current Options 3, Section 18(a)(4) that references QUO, would be removed along with current Options 3, Section 18(c) and (f).

Proposed Options 3, Section 18(f)(1) would provide that if the Participant changes the default number of “nn” seconds, that new setting shall be in effect throughout the current Session of Connectivity and will then default back to fifteen seconds. The Participant may change the default setting prior to each Session of Connectivity. Finally, as proposed in Options 3, Section 18(f)(2), if the time period is communicated to the Exchange by calling Exchange operations, the number of “nn” seconds selected by the Participant will persist for each subsequent Session of Connectivity until the Participant either contacts Exchange operations by phone and changes the setting or the Participant selects another time period through the Client Application prior to the next Session of Connectivity. The trigger for OTTO Ports is event and Client Application specific. The automatic cancellation of the NOM Options Market Maker’s open orders for OTTO Ports entered into the respective OTTO Ports via a particular Client Application will neither impact nor determine the treatment of orders of the same or other Participants entered into the OTTO Ports via a separate and distinct Client Application. The proposed amendments

for OTTO mirror the manner in which FIX Ports are treated when the Exchange’s server does not receive a Heartbeat message for a certain time period for a FIX Port.<sup>126</sup>

### **Options 3, Section 20**

The Exchange proposes to add language at Options 3, Section 20(i), Nullification and Adjustment of Options Transactions including Obvious Errors, to describe the treatment of Stop and Stop-Limit Orders triggered by an erroneous trade. The Exchange proposes to note that transactions resulting from the triggering of a Stop or Stop-Limit Order by an erroneous trade in an option contract shall be nullified by the Exchange, provided a party notifies an Official<sup>127</sup> in a timely manner as set forth below. If a party believes that it participated in an erroneous transaction pursuant to this paragraph it must notify an Official within the timeframes set forth in sub-paragraph (c)(2),<sup>128</sup> with the allowed notification timeframe commencing at the time of notification of the nullification of transaction(s) that triggered the Stop or Stop-Limit Order. The Exchange also proposes to re-letter current (i) – (l). This proposed rule text is identical to Phlx Options 3, Section 20(i).

### **Options 3, Section 22**

The Exchange proposes to amend Options 3, Section 22, Limitations on Order Entry, to adopt a new Supplementary Material .01 to provide that, “With respect to the non-displayed reserve portion of a Reserve Order, the exposure requirement of paragraphs (a) and (c) are satisfied if the displayable portion of the Reserve Order is displayed at its displayable price for

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<sup>126</sup> The Exchange proposes to update internal cross-references to accommodate relocated text.

<sup>127</sup> For purposes of Options 3, Section 20, an Official is an Options Exchange Official as defined in Options 1, Section 1(b)(38). See NOM Options 3, Section 20(a)(3).

<sup>128</sup> NOM Options 3, Section 20(c)(2) describes the time deadlines for a party that believes that it participated in a transaction that was the result of an Obvious Error to notify an Official in the manner specified by the Exchange.

one second.” ISE, GEMX and MRX Supplementary Material .02 to Options 3, Section 22 contains identical rule text.

### **Options 3, Section 23**

The Exchange proposes to amend Options 3, Section 23, Data Feeds and Trade Information. The Exchange proposes to no longer offer TradeInfo, which is a user interface set forth in Options 3, Section 23(b)(2) that permits a Participant to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. Due to the lack of demand for this interface by Participants, the Exchange is retiring the interface. The Exchange seeks to decommission the TradeInfo interface when the Exchange migrates over to the enhanced technology platform with the technology migration. FIX and the Clearing Trade Interface (“CTI”),<sup>129</sup> which are available to all Participants, may be used to obtain order information that is currently available within TradeInfo, and FIX may be used to cancel orders today. Additionally, the Exchange proposes to remove the \$95 per user, per month TradeInfo NOM Interface Fee in the Pricing Schedule at Options 7, Section 3(ii). The fee would not be necessary once TradeInfo is discontinued.

The Exchange proposes a technical amendment to Options 3, Section 23(b)(3) related to FIX DROP. The Exchange proposes to add the word “has” to the description for readability.

The Exchange proposes to remove “QUO DROP” at Options 3, Section 23(b)(4) as the Exchange will no longer offer a DROP port with the amended version of QUO that is renamed

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<sup>129</sup> CTI is a real-time clearing trade update message that is sent to a Participant after an execution has occurred and contains trade details specific to that Participant. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or “CMTA” or “OCC” number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity. See Options 3, Section 23(b)(1).

“OTTO.” Currently, QUO DROP provides real-time information regarding orders entered through QUO and the execution of those orders. The QUO DROP data feed is not a trading interface and does not accept order messages. The Exchange also proposes to remove the QUO DROP Port Fee at Options 7, Section 3(ii).<sup>130</sup> A similar feed is not offered on other Nasdaq affiliated exchanges.

### **Options 3, Section 28**

The Exchange proposes to introduce optional quantity and notional value checks in new Options 3, Section 28, entitled “Optional Risk Protections.” The proposed optional order risk protections will be identical to the protections currently offered by ISE, GEMX and MRX Options 3, Section 28. Participants may use this voluntary functionality through their FIX protocol to limit the quantity and notional value they can send per order and on aggregate for the day. Specifically, Participants may establish limits for the following parameters, as set forth in proposed subparagraphs (a)(1)-(4):

- (1) Notional dollar value per order, which will be calculated as quantity multiplied by limit price multiplied by number of underlying shares;
- (2) Daily aggregate notional dollar value;
- (3) Quantity per order; and
- (4) Daily aggregate quantity

Proposed paragraph (b) will provide that Participants may elect one or more of the above optional risk protections by contacting Market Operations and providing a per order value (for (a)(1) and (a)(3)) or daily aggregate value (for (a)(2) and (a)(4)) for each order protection.

Participants may modify their settings through Market Operations. Proposed paragraph (c) will

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<sup>130</sup> Today, the Exchange assesses a QUO DROP Port Fee of \$650 per port, per month at Options 7, Section 3(ii).

provide that the System will reject all incoming aggregated Participant orders for any of the (a)(2) and (a)(4) risk protections after the value configured by the Participant is exceeded. Proposed paragraph (d) will provide that the System will reject all incoming Participant orders for any of the (a)(1) and (a)(3) risk protections upon arrival if the value configured by the Participant is exceeded by the incoming order. The difference in handling between aggregate and individual order protections is necessary to allow for complete processing of the final order that puts a Participant's configured value over the aggregate values configured. While individual orders can be directly measured against the configured values for (a)(1) and (a)(3), the aggregate values must be calculated after complete processing of an order and thus the rejection of orders begins upon the arrival of the next order after the aggregate values in (a)(2) or (a)(4) have been exceeded.

The following example shows how the System will reject all subsequent incoming aggregated orders after the (a)(2) or (a)(4) values configured by the Participant have been exceeded.

#### Optional Risk Protection Example

*Aggregate Quantity Limit = 800.*

Participant enters an order to Buy 500 – Accepted

Participant enters an order to Buy 400 – Accepted (Participant did not meet the configured limit of 800 with the first order of 500 at the time Participant entered the second order)

Participant enters an order to Buy 1 – Rejected (Participant already exceeded the configured limit of 800 with the second order of 400)

The following example shows how the System will reject all incoming orders upon arrival if the (a)(1) or (a)(3) values configured by the Participant have been exceeded by the arriving order:

*Quantity Per Order Limit = 800.*

Participant enters an order to Buy 801 – Rejected (Participant exceeded the Quantity per order limit upon arrival with the order to buy 801 contracts)

Proposed paragraph (e) will provide that if a Participant sets a notional dollar value, a Market Order would not be accepted from that Participant. This is because notional dollar value is calculated by using an order's specified limit price, and Market Orders by definition are priced at the best available price upon execution. Lastly, proposed paragraph (f) will provide that the proposed risk protections are only available for orders entered through FIX. Additionally, all of the proposed settings will be firm level.

#### **Options 4**

Today, NOM Options 4 is incorporated by reference to ISE Options 4. NOM Options 4 currently states,

The rules contained in Nasdaq ISE Options 4, as such rules may be in effect from time to time (the "Options 4 Rules"), are hereby incorporated by reference into this NOM Options 4, and are thus NOM Rules and thereby applicable to NOM Participants. NOM Participants shall comply with the Options 4 Rules as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the Options 4 Rules shall be read to refer to the NOM related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term "Exchange" in the Options 4 Rules shall be read to refer to NOM; the defined term "Rule" in the Options 4 Rules shall be read to refer to the NOM Rule; the defined terms "Competitive Market Maker" and "Market Maker" in the Options 4 Rules shall be read to refer to the NOM Market Maker (NOM does not have an equivalent to the "Lead Market Maker" term on ISE); and the defined terms "Electronic Access Member," "EAM," or "Member" in the Options 4 Rules shall be read to refer to the NOM Participant.

With the addition of LMMs, the Exchange proposes to remove the rule text that states, "NOM does not have an equivalent to the "Lead Market Maker" term on ISE" in NOM Options 4. To account for LMMs, the proposed text would be amended to state,

The rules contained in Nasdaq ISE Options 4, as such rules may be in effect from time to time (the "Options 4 Rules"), are hereby incorporated by reference into this NOM Options 4, and are thus NOM Rules and thereby applicable to NOM Participants. NOM Participants shall comply with the Options 4 Rules as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the Options 4 Rules shall be read to refer to the NOM related meaning of such term. Solely by way of example, and not in limitation or in

exhaustion: the defined term “Exchange” in the Options 4 Rules shall be read to refer to NOM; the defined term “Rule” in the Options 4 Rules shall be read to refer to the NOM Rule; the defined terms “Competitive Market Maker” and “Market Maker” in the Options 4 Rules shall be read to refer to the NOM Market Maker; the defined term “Primary Market Maker” in the Options 4 Rules shall be read to refer to the NOM Lead Market Maker; and the defined terms “Electronic Access Member,” “EAM,” or “Member” in the Options 4 Rules shall be read to refer to the NOM Participant.

#### **Options 5, Section 4**

The Exchange proposes to amend Options 5, Section 4, Order Routing, so that NOM Options 5, Section 4 is identical to NTX Options at Options 5, Section 4. Today, NOM offers the following order types for routing: DNR Order, SEEK Order and SRCH Order. A DNR Order will never be routed outside of the Exchange regardless of the prices displayed by away markets. A SEEK Order may route during and after an Opening Process.<sup>131</sup> Once the SEEK Order rests on the Order Book, it will not be eligible for routing until the next time the option series is subject to a new Opening Process. A SRCH Order may route during and after an Opening Process. A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market.

This proposal would amend NOM Rules to remove the SEEK routing option and, instead, adopt the FIND Order routing option identical to NTX Options at Options 5, Section 4 except for references to System handling relevant to Price Improving Orders. A FIND Order, similar to a SEEK Order, will only attempt to route once and then post to the Order Book. FIND Orders that are not marketable with the ABBO upon receipt, similar to SEEK Orders, will be treated as DNR for the remainder of the trading day and post to the Order Book, and will not be subject to routing even in the event that there is a new Opening Process after a trading halt. If a FIND

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<sup>131</sup> NOM’s proposed Opening Process is described at Options 3, Section 8 in this proposal.

Order were marketable with the ABBO upon receipt, it would be eligible for routing the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt. FIND Orders may route during and after an Opening Process, similar to SEEK Orders.<sup>132</sup> The Exchange is replacing the “SEEK” option with a “FIND” option within Options 5, Section 4(a) to account for the change in routing options, which will be described below in greater detail below. Of note, unlike FIND and SEEK Orders, SRCH Orders will continue to route throughout the trading day, provided the SRCH Order is marketable with the ABBO. Further, this proposal would conform rule text describing DNR Orders and SRCH Orders with NTX Options rule text.

The Exchange proposes to amend Options 5, Section 4(a) to state that, “Immediate-or-Cancel (“IOC”) will be rejected and will not be routed.” Options 5, Section 4 explains the manner in which various order types are handled differently for purposes of routing. An IOC Order will not rest on the order book by its definition and cannot route. The Exchange proposes to add language to make clear that IOC Orders are not subject to routing and therefore would be rejected. Further, the Exchange proposes to amend Options 5, Section 4(a) to replace “SEEK” with “FIND” and to note that IOC Orders will be rejected<sup>133</sup> and will not be routed. The Exchange also proposes to add the following rule text to Options 5, Section 4(a) as this text

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<sup>132</sup> Orders that route during an Opening Process route at the end of the Opening Process, when the Exchange simultaneously opens an options series and routes. Thereafter, FIND Orders that were submitted after the Opening Process would attempt once to route until the FIND Order rests on the Order Book. Once it rests on the Order Book, the FIND Order would not route until the next Opening Process. Finally, an Opening Process may occur intra-day if there was a trading halt. After a trading halt, NOM would reopen with an Opening Process and the FIND Order would be eligible to route once again.

<sup>133</sup> NTX Options rule text states that IOC Orders will be cancelled immediately if not executed and will not be routed. The Exchange is amending that language in a separate rule proposal to state that IOC Orders will be rejected and will not be routed. u NTX Options at Options 5, Section 4.

provides more information about the current System processing and addresses Stop and Stop-Limit Orders,

When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. For purposes of this rule, the Exchange's best bid or offer or "BBO" does not include Stop Orders and Stop-Limit Orders which have not been triggered. The "internal BBO" shall refer to the actual better price of an order resting on the Exchange's Order Book, which is not displayed, but available for execution, excluding Stop Orders and Stop-Limit Orders which have not been triggered.

More specifically, the "BBO" does not include Stop and Stop-Limit Orders which have not been triggered. The "internal BBO" is also described at Options 3, Section 5. Today, unlike NTX Options, NOM does not offer order exposure as explained in more detail below. With this proposal, NOM will offer order exposure identical to NTX Options' order exposure. With order exposure, a notification sent to participants with the price, size, and side of interest that is available for execution.<sup>134</sup> This exposure allows other Participants to interact with an order before it is routed to an away market during the System's Route Timer. If an incoming order is joining an already established BBO price when the ABBO is locked or crossed with the BBO such order will join the established BBO price and no exposure notification will be sent, otherwise a notification will be sent. The order exposure will be explained further below.

#### DNR Orders

The Exchange proposes to amend Options 5, Section 4(a)(iii)(A), related to DNR Orders, to conform the rule text to NTX Options at Options 5, Section 4(a)(iii)(A). Currently, Options 5, Section 4(a)(iii)(A), relating to DNR Orders, states,

A DNR Order will never be routed outside of the Exchange regardless of the prices displayed by away markets. A DNR Order may execute on the Exchange at

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<sup>134</sup> A Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. See current NOM Options 5, Section 4(a).

a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR Order will remain in the Exchange book and be displayed at a price one minimum price variation (“MPV”) away from that ABBO. Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless (1) the ABBO is improved to a price which crosses the DNR Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price; or (2) the ABBO is improved to a price which locks the DNR Order's displayed price, in which case the incoming order will execute at the DNR Order's displayed price. Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price.

The Exchange proposes to amend the second sentence of Options 5, Section 4(a)(iii)(A), to change the words “away from that ABBO” to “inferior to the best bid/offer.” This is a non-substantive amendment intended to conform the rule text to that of NTX Options.

The Exchange proposes to add the following rule text at Options 5, Section 4(a)(iii)(A), regarding a DNR Order and order exposure, “If the DNR Order is locking or crossing the ABBO, the DNR Order shall be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The Exchange shall immediately expose the order at the ABBO to participants, provided the option series has opened for trading.” This exposure would make other Participants aware that this order was available on the Order Book. This is identical to rule text at NTX Options at Options 5, Section 4(a)(iii)(A).<sup>135</sup>

The Exchange proposes to amend the last sentence of current Options 5, Section 4(a)(iii)(A) which currently states, “Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price, and expose such orders at

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<sup>135</sup> The Exchange also proposes to add a “(1)” to this paragraph to align with the “(2)” in current Options 5, Section 4(a).

the new ABBO.” The proposed sentence would provide, “Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price, and expose such orders at the new ABBO or its original limit price. Once booked at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price.” The Exchange’s proposal is intended to make clear the current System operation. The rewording of this sentence does not result in a System change, rather the new sentence is intended to bring greater clarity to the current System operation. The proposed new rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(A).

#### FIND Order

The Exchange proposes to adopt a new FIND Order at Options 5, Section 4(a)(iii)(B) in lieu of SEEK Orders, which are being removed from Options 5, Section 4. The proposed FIND Order is identical to the FIND Order at NTX Options at Options 5, Section 4(a)(iii)(B), except with respect to the System handling of Price Improving Orders. As noted above, a FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. FIND Orders submitted after an Opening Process initiate their own Route Timers and are routed in the order in which their Route Timers end. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day, and post to the Order Book, even in the event that there is a new Opening Process after a trading halt.<sup>136</sup> This text is identical to NTX Options at

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<sup>136</sup> Orders that route during an Opening Process route at the end of the Opening Process, when the Exchange simultaneously opens an options series and routes. Thereafter, FIND Orders that were submitted after the

Options 5, Section 4(a)(iii)(B), except with respect to the System handling of Price Improving Orders.

The Exchange proposes to provide at proposed Options 5, Section 4(a)(iii)(B)(1), “At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Options 3, Section 8(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will execute or book pursuant to Options 3, Section 8(k).” The proposed Opening Process describes the manner in which orders route at the end of the Opening Process. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day and will not be subject to routing even in the event that there is a new Opening Process after a trading halt.

In order to more efficiently display the various potential scenarios when routing, without repeating certain rule text several times throughout the rule, the Exchange proposes to adopt proposed Options 5, Section 4(a)(iii)(B)(2). The proposed paragraph provides,

Generally, a FIND Order will be included in the displayed BBO at its limit price (or one MPV inferior to its limit price for Price Improving Orders), unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during a Route Timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the BBO, the FIND Order will post at its limit price. If the FIND Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. If the ABBO worsens but remains better than the BBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order’s already displayed price, in

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Opening Process would attempt once to route until the FIND Order rests on the Order Book. Once it rests on the Order Book, the FIND Order would not route until the next Opening Process. Finally, an Opening Process may occur intra-day if there was a trading halt. After a trading halt, NOM would reopen with an Opening Process and the FIND Order would be eligible to route once again.

which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

This paragraph utilizes the term “generally” because it always applies to FIND Orders. The Exchange proposes to state that a FIND Order will be included in the displayed BBO at its limit price (or one MPV inferior to its limit price for Price Improving Orders),<sup>137</sup> unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. This statement will provide context for the FIND Order and will apply consistently to FIND Orders. If during a Route Timer, ABBO markets move such that the FIND Order is no longer marketable against the ABBO nor marketable against the BBO, the FIND Order will post at its limit price. The Exchange further proposes to provide that if the FIND Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. However, if the ABBO worsens but remains better than the BBO, the FIND Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order’s already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. The Exchange believes that describing these scenarios in this introductory paragraph will provide a basis to understand certain FIND Order behaviors in certain circumstances and eliminate the need to have these circumstances repeated throughout the rule. This rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(2), except with respect to the System handling of Price Improving Orders.

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<sup>137</sup> Today, a Price Improving Order will book at its limit price and display one MPV inferior to its limit price. See NOM Options 5, Section 4(a)(iii)(C). Similar changes are being made for the remainder of FIND and SRCH to account for Price Improving Orders.

Proposed Options 5, Section 4(a)(iii)(B)(3) provides, “A FIND Order received after an Opening Process that is not marketable against the BBO or the ABBO will be entered into the Order Book at its limit price. The FIND Order will be treated as DNR for the remainder of the trading day, even in the event that there is a new Opening Process after a trading halt.” This text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(3). NOM would treat FIND Orders received after an Opening Process that are not marketable against the BBO or the ABBO in the same manner as NTX Options. NOM is adding rule text to make clear that the FIND Order will not route, even if there is a new Opening Process. The Exchange will not allow a non-marketable order to route.

Proposed NOM Options 5, Section 4(a)(iii)(B)(4) provides,

A FIND Order received after an Opening Process that is marketable against the BBO when the ABBO is inferior to the BBO will be traded on the Exchange at or better than the BBO price. If the FIND Order has size remaining after exhausting the BBO, it may: (1) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, (2) be entered into the Order Book at its limit price, or (3) if locking or crossing the ABBO, be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The FIND Order will be treated as DNR for the remainder of the trading day, even in the event that there is a new Opening Process after a trading halt.

This rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(4). This paragraph describes scenarios where the FIND Order is marketable against the BBO, when the ABBO is inferior to the BBO. In this case, the FIND Order will be traded at the Exchange at or better than the BBO price. If the FIND Order has size remaining after exhausting the BBO, there are various possible scenarios: the FIND Order may (1) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, (2) be entered into the Order Book at its limit price, or (3) if locking or crossing the ABBO, be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO.

The FIND Order will be treated as DNR for the remainder of the trading day, even in the event that there is a new Opening Process after a trading halt. NOM handles FIND Orders in the same manner as NTX Options with respect to not routing for the remainder of the trading day, even if there is a new Opening Process.

Proposed Options 5, Section 4(a)(iii)(B)(5) provides,

A FIND Order received after an Opening Process that is marketable against the BBO when the ABBO is equal to the BBO will be traded on the Exchange at the BBO. If the FIND Order has size remaining after exhausting the BBO, it will initiate a Route Timer, and expose the FIND Order at the ABBO to allow market participants an opportunity to interact with the remainder of the FIND Order. During the Route Timer, the FIND Order will be included in the BBO at a price one MPV away from the ABBO. If during the Route Timer, the ABBO markets move such that the FIND Order is no longer marketable against the ABBO, it may: (i) trade at the next BBO price (or prices) if the FIND Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO.

This rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(5). Proposed Options 5, Section 4(a)(iii)(B)(5) explains that if a FIND Order is received after an Opening Process that is marketable against the BBO, when the ABBO is equal to the BBO, the FIND Order will be traded at the Exchange at the BBO. Further, if the FIND Order has size remaining after exhausting the BBO, it will initiate a Route Timer and expose the FIND Order at the ABBO to allow market participants an opportunity to interact with the remainder of the FIND Order. During a Route Timer, the FIND Order will be included in the BBO at a price one MPV away from the ABBO. The Exchange also accounts for scenarios during a Route Timer. The first scenario describes a situation during the Route Timer, if ABBO markets move such that the FIND Order is no longer marketable against the ABBO. In this scenario, various events could occur, the FIND Order may: (i) trade at the next BBO price (or prices) if the FIND Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit

price (or one MPV inferior to its limit price for Price Improving Orders) if not locking or crossing the BBO.

Proposed Options 5, Section 4(a)(iii)(B)(6) provides,

If, at the end of the Route Timer pursuant to subparagraph (5) above, the FIND Order is still marketable with the ABBO, the FIND Order will route to an away market up to a size equal to the lesser of either: (1) an away market's size or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after routing, it will (i) trade at the next BBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the BBO, or (ii) be entered into the Order Book and posted either at its limit price or displayed one MPV away if the order would otherwise lock or cross the ABBO. If size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt.

The Exchange's proposed rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(6), except with respect to the System handling of Price Improving Orders. At the end of a Route Timer, if a FIND Order is still marketable with the ABBO, the FIND Order will route to an away market up to a size equal to the lesser of either (1) an away market's size or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after routing, it will (i) trade at the next BBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the BBO, or (ii) be entered into the Order Book and posted either at its limit price or displayed one MPV away if the order would otherwise lock or cross the ABBO. A FIND Order will only route once, so if size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt. Proposed Options 5, Section 4(a)(iii)(B)(6)(i) describes a scenario where interest has routed and size remains, which size would be routed again without posting to the Order Book. Once the FIND Order posts to the Order Book, it will not route again

until the options series is subject to a new Opening Process. If size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. An Opening Process would occur intra-day if there was a trading halt. After a trading halt, NOM would reopen with an Opening Process.

Proposed Options 5, Section 4(a)(iii)(B)(7) provides,

A FIND Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the BBO will initiate a Route Timer, and expose the FIND Order at the ABBO to allow participants and other market participants an opportunity to interact with the FIND Order.

The Exchange's proposed rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(7). This paragraph describes the exposure aspect that is being added to NOM.

Exposing the order will allow market participants the opportunity to interact with the order that is marketable against the ABBO when the ABBO is better than the BBO.

Proposed Options 5, Section 4(a)(iii)(B)(8) provides,

If, at the end of the Route Timer pursuant to subparagraph (7) above, the ABBO is still the best price and is marketable with the FIND Order, the order will route to the away market(s) whose disseminated price(s) is better than the BBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after such routing, it will (i) trade at the BBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the BBO, or (ii) be entered into the Order Book and posted either at its limit price or displayed one MPV away if the order would otherwise lock or cross the ABBO. If size remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt.

The Exchange's proposed rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(8), except with respect to the System handling of Price Improving Orders. During the Route Timer, the FIND Order will be included in the BBO at a price that is the better of one MPV away from the ABBO or the BBO. In this scenario, if during that Route Timer new

interest arrives opposite the FIND Order, and that interest is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price. If, at the end of that Route Timer the ABBO is still the best price, and is marketable with the FIND Order, the order will route to the away market(s) whose disseminated price(s) is better than the BBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after such routing, it will (i) trade at the BBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the BBO, or (ii) be entered into the Order Book and posted either at its limit price or displayed one MPV away if the order would otherwise lock or cross the ABBO. If size remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process, which may include a re-opening after a trading halt.

Finally, proposed Options 5, Section 4(a)(iii)(B)(9) is identical to NTX Options at Options 5, Section 4(a)(iii)(B)(9) and provides that a FIND Order that is routed to an away market(s) will be marked as an Intermarket Sweep Order "ISO" and designated as an IOC order.

#### SEEK Orders

The Exchange proposes to remove the rule text for SEEK Orders as the Exchange will no longer offer this routing option. The Exchange believes that adopting the FIND Order routing option, identical to NTX Options with the exception of the System handling for Price Improving Orders, will provide its market participants with ample choice as to the method in which they may route. As is the case today, an order may also be marked as "DNR" and therefore would not be subject to routing. With this proposal, any market participant may choose to route, as is the

case today. The Exchange proposes to replace references to “SEEK” within Options 5, Section 4(a) with “FIND” references.

#### SRCH Orders

The Exchange proposes to retain the SRCH Order functionality. The Exchange’s current SRCH Order functionality is identical to SRCH Order functionality on NTX Options, except with respect to the System handling of Price Improving Orders.

The Exchange proposes to remove the first sentence of Options 5, Section 4(a)(iii)(C).<sup>138</sup> The information in that first sentence of Options 5, Section 4(a)(iii)(C) is available within Options 5, Section 4(a) and applies to SRCH Orders. The Exchange proposes to add the following rule text to Options 5, Section 4(a)(iii)(C), “A SRCH Order is routable at any time. A SRCH Order on the Order Book during an Opening Process (including a re-opening following a trading halt), whether it is received prior to an Opening Process or it is a GTC or GTD SRCH Order from a prior day, may be routed as part of an Opening Process. Orders initiate their own Route Timers and are routed in the order in which their Route Timers end.” This proposed rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(C).

Proposed Options 5, Section 4(a)(iii)(C)(1) provides that at the end of an Opening Process, any SRCH Order that is priced through the Opening Price, pursuant to Options 3, Section 8(a)(iii), will be cancelled, and any SRCH Order that is at or inferior to the Opening Price will execute or book pursuant to Options 3, Section 8(k). This rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(1). The information concerning the Opening Process is specified within proposed Options 3, Section 8 and is being reiterated within this rule to

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<sup>138</sup> Current Options 5, Section 4(a)(iii)(C) provides, “SRCH Order is a routing option pursuant to which an order will first check the System for available contracts for execution, and then is sent to other available market centers for potential execution.”

describe routing during the Opening Process. As proposed, Options 3, Section 8 provides a process whereby NOM arrives at an Opening Price. As proposed, the System would cancel any order or quote priced through the Opening Price that was not able to be satisfied either by routing to an away destination or trading in full as part of the opening trade. Specifically, proposed Options 5, Section 4(a)(iii)(C)(1) states that “priced through the Opening Price” means buying interest with a price higher than the Opening Price and selling interest with a price lower than the Opening Price. The Exchange would remove the current text at Options 5, Section 4(a)(iii)(C)(1) that provides, “If a SRCH Order is received during the Opening Process it may route as part of the Opening and Halt Cross pursuant to Options 3, Section 8(b)(7).” This current text refers to the Opening and Halt Cross text that is being removed from Options 3, Section 9 with the opening proposal.

Similar to the FIND Order proposal, the Exchange proposes to add a paragraph at proposed Options 5, Section 4(a)(iii)(C)(2) which provides general guidelines for the behavior of SRCH Orders which apply consistently. This proposed paragraph will allow the Exchange to more efficiently display the various potential scenarios without repeating certain rule text several times. The Exchange believes that describing these scenarios in this introductory paragraph will provide a basis to understand certain SRCH Order behaviors in certain circumstances and eliminate the need to have these circumstances repeated throughout the rule.

Generally, a SRCH Order will be included in the displayed BBO at its limit price (or one MPV inferior to its limit price for Price Improving Orders), unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO, similar to other routing order types. Also, if there is a locked ABBO when the SRCH Order is entered onto the Order Book, the SRCH Order will be

entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO to avoid locking the away market. The Exchange proposes to generally state, “Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market.” This provision is always true of SRCH Orders.

Next, the Exchange provides scenarios that generally may occur during a Route Timer. The first scenario is if during a Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the BBO. In this case, the SRCH Order will book at its limit price. The next scenario is whether during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order’s already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If new interest arrives that is equal to or better than the ABBO price, the SRCH Order will trade at the ABBO price. If new interest arrives that is marketable against the SRCH Order it will trade at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order’s already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. This last sentence within proposed Options 5, Section 4(a)(iii)(C)(2) makes clear that the SRCH Order would execute at the previous ABBO price as the away market crossed a displayed price. Better priced incoming interest will execute against the SRCH Order, unless the ABBO crosses the SRCH Order, in which case any new interest will execute at the SRCH Order price. In this scenario, NOM’s price was already displayed when an away market subsequently crossed NOM’s displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-

exposed at the new price(s) without interrupting the Route Timer. Also, if an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer, each time. Finally, if the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. The System will route and execute contracts contemporaneously at the end of the Route Timer. The last two sentences of proposed Options 5, Section 4(a)(iii)(C)(2) are similar to the current last sentence of NOM Options 5, Section 4(a)(iii)(C)(4). The sentences in this paragraph are identical to NTX Options at Options 5, Section 4(a)(iii)(C)(2), except with respect to the System handling of Price Improving Orders. The first sentence of current Options 5, Section 4(a)(iii)(C)(4) is relocated within the rule text of proposed Options 5, Section 4(a)(iii)(C)(2). The first sentence in current Options 5, Section 4(a)(iii)(C)(5) is relocated within the rule text of proposed Options 5, Section 4(a)(iii)(C)(2). Additionally, the rule text from current Options 5, Section 4(a)(iii)(C)(3) is represented in this new paragraph. The rule text of proposed Options 5, Section 4(a)(iii)(C)(2) is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(3), except with respect to the System handling of Price Improving Orders. Proposed Options 5, Section 4(a)(iii)(C)(2) would provide,

Generally, a SRCH Order will be included in the displayed BBO at its limit price (or one MPV inferior to its limit price for Price Improving Orders), unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order is entered onto the Order Book, the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. If during a Route Timer, ABBO markets move such that the SRCH Order is no longer marketable against the ABBO nor marketable against the BBO, the SRCH Order will book at its limit price. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price,

the SRCH Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. If the ABBO worsens but remains better than the BBO, the SRCH Order will reprice and be re-exposed at the new price(s) without interrupting the Route Timer. If an ABBO locks or crosses the SRCH Order during a new Route Timer, which would subsequently initiate at the conclusion of any Route Timer if interest remains, the SRCH Order may route to the away market at the ABBO at the conclusion of such Route Timer. If the SRCH Order is locked or crossed by away quotes, it will route at the completion of the Route Timer. The System will route and execute contracts contemporaneously at the end of the Route Timer.

The Exchange proposes to provide rule text at proposed Options 5, Section 4(a)(iii)(C)(3) that is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(3). This paragraph explains what happens to a SRCH Order that is not marketable against the BBO or the ABBO. The SRCH Order would be entered into the Order Book. NOM proposes to state that the SRCH Order is entered at its limit price to provide greater detail. Once on the Order Book, the SRCH Order may route if it is locked or crossed by an away market. Proposed Options 5, Section 4(a)(iii)(C)(3) provides, "A SRCH Order received after an Opening Process that is not marketable against the BBO or the ABBO will be entered into the Order Book at its limit price. Once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market."

Proposed Options 5, Section 4(a)(iii)(C)(4) provides,

A SRCH Order received after an Opening Process that is marketable against the BBO when the ABBO is inferior to the BBO will be traded on the Exchange at or better than the BBO price. If the SRCH Order has size remaining after exhausting the BBO, it may: (1) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, and/or (2) be routed, subject to a Route Timer, to away markets if all NOM interest at better or equal prices has been exhausted, and/or (3) be entered into the Order Book at its limit price if not locking or crossing the BBO or the ABBO.

This proposed rule text represents a scenario where the SRCH Order is received after an Opening Process and is marketable against the BBO when the ABBO is inferior to the BBO. In this case the SRCH Order would be traded at or better than the BBO price. If size remains, the Exchange describes the various potential scenarios, the SRCH Order may: (1) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the price equal to the ABBO price, and/or (2) be routed, subject to a Route Timer, to away markets if all NOM interest at better or equal prices has been exhausted, and/or (3) be entered into the Order Book at its limit price if not locking or crossing the BBO or the ABBO. Proposed Options 5, Section 4(a)(iii)(C)(4) is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(4).

Proposed Options 5, Section 4(a)(iii)(C)(5) provides,

A SRCH Order received after an Opening Process that is marketable against the BBO when the ABBO is equal to the BBO will be traded on the Exchange at the BBO. If the SRCH Order has size remaining after exhausting the BBO, it will initiate a Route Timer and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the remainder of the SRCH Order. During the Route Timer, the SRCH Order will be included in the BBO at a price one MPV away from the ABBO.

This proposed paragraph describes a scenario that is currently not provided for within NOM's rule. This scenario explains when a SRCH Order, received after the Opening Process, is marketable against the BBO when the ABBO is equal to the BBO. In this case, the SRCH Order will be traded at the BBO price. If size remains, it will start a Route Timer and expose the SRCH Order at the ABBO and display the SRCH Order one MPV away from the ABBO so as not to lock the away market. During the Route Timer, the SRCH Order will be included in the BBO at a price one MPV away from the ABBO. Proposed Options 5, Section 4(a)(iii)(C)(5) is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(5). The following sentence, "If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or

better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price” is contained within proposed Options 5, Section 4(a)(iii)(C)(2), and generally describes SRCH Orders.

Proposed Options 5, Section 4(a)(iii)(C)(6) provides,

If, at the end of the Route Timer pursuant to subparagraph (5) above, the SRCH Order is still marketable with the ABBO, the SRCH Order will route to an away market up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after routing, it may: (i) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO or the ABBO.

The Exchange proposes to note what occurs at the end of the Route Timer in paragraph (5) within proposed Options 5, Section 4(a)(iii)(C)(6). If the SRCH Order is still marketable with the ABBO, the SRCH Order will route up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (i) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO or the ABBO. As mentioned also during the proposed Opening Process, once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. The Exchange believes that noting each potential scenario within the SRCH Order rule text will provide market participants with clarity as to the expected System handling. Proposed Options 5, Section 4(a)(iii)(C)(6) is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(6).

The Exchange proposes to delete current Options 5, Section 4(a)(iii)(C)(2) and (3) and replace that language with similar text within proposed Options 5, Section 4(a)(iii)(C)(7) which provides,

A SRCH Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the BBO will initiate a Route Timer, and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. If during the Route Timer, the ABBO markets move such that the SRCH Order is no longer marketable against the ABBO, it may: (i) trade at the next BBO price (or prices) if the SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO.

The first sentence of this proposed rule is the same as the last sentence of current NOM Options 5, Section 4(a)(iii)(C)(1). In this scenario, the SRCH Order is received after the Opening Process and is marketable against the ABBO when the ABBO is better than the BBO. A Route Timer will initiate and expose the SRCH Order at the ABBO to provide an opportunity to trade with the SRCH Order. If during the Route Timer, the ABBO markets move such that the SRCH Order is no longer marketable against the ABBO a few scenarios are possible: The SRCH Order may: (i) trade at the next BBO price (or prices) if the SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO. This rule text is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(7).

Proposed Options 5, Section 4(a)(iii)(C)(8) provides,

If, at the end of the Route Timer pursuant to subparagraph (7) above, the ABBO is still the best price and is marketable with the SRCH Order, the order will route to the away market(s) whose disseminated price(s) is better than the BBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the SRCH Order. If the SRCH Order still has remaining size after such routing, it may: (i) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO or the ABBO.

This scenario considers what is possible at the end of the Route Timer within proposed Options 5, Section 4(a)(iii)(C)(7). If the ABBO is still at the best price and is marketable with the SRCH Order, the order will route to the away market with a price that is better than the BBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the

SRCH Order. If the SRCH Order still has remaining size after such routing, there are various possibilities, the SRCH Order may: (i) trade at the next BBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the BBO or the ABBO. As is the case with SRCH Orders, once on the Order Book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. Proposed Options 5, Section 4(a)(iii)(C)(8) is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(8).

Proposed Options 5, Section 4(a)(iii)(C)(9) provides, “A SRCH Order that is routed to an away market(s) will be marked as an ISO and designated as an IOC Order.” This sentence is identical to NTX Options at Options 5, Section 4(a)(iii)(C)(9). This paragraph, which is currently not contained in NOM’s rule, represents existing System functionality. Describing the manner in which an IOC Order will be marked will provide greater transparency to the Exchange’s current rule.

### **Options 6, Section 1**

By way of background, Options 6, Section 1 allows a Clearing Member to opt in, at The Options Clearing Corporation (“OCC”) clearing number level, to a feature that, if enabled by the Clearing Member, will allow the Clearing Member to specify which Participants are authorized to give up that OCC clearing number. For each transaction in which a Participant participates, the Participant may indicate, at the time of the trade or through post trade allocation, any OCC number of a Clearing Member through which a transaction will be cleared (“Give Up”), provided the Clearing Member has not elected to “Opt In,” and restrict one or more of its OCC number(s) (“Restricted OCC Number”). A Participant may Give Up a Restricted OCC Number provided the Participant has written authorization (“Authorized Member”). Clearing Members may

request the Exchange restrict one or more of their OCC clearing numbers (“Opt In”). An Opt In remains in effect until the Clearing Member terminates the Opt In. If a Clearing Member does not Opt In, that Clearing Member’s OCC number may be subject to Give Up by any Participant.

The Exchange proposes to amend Options 6, Section 1, Authorization to Give Up, to align NOM’s process to that of ISE, GEMX and MRX Options 6, Section 1. The Exchange proposes amend Options 6, Section 1(c) which currently states, “The System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic<sup>139</sup> level at the point of order entry.” Today, the System will block the entry of the order from the outset. This is because a valid mnemonic will be required for any order to be submitted directly to the System, and a mnemonic will only be set up for a Participant if there is already a clearing arrangement in place for that firm either through a Letter of Guarantee or in the case of a Restricted OCC Number, the Participant becoming an Authorized Participant. The System also restricts any post trade allocation changes if the Participant is not authorized to use a Restricted OCC Number.

At this time, the Exchange proposes to instead provide that “The System will not allow an unauthorized Participant to Give Up a Restricted OCC Number. If an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Member’s default OCC clearing number.” With this change, if an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Participant’s default OCC clearing number. With this proposed change, a Participant may amend the OCC clearing number to any valid OCC clearing

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<sup>139</sup> The term “mnemonic” means an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics. See NOM Options 1, Section 1(a)(25).

number at the time of the trade, or through post trade allocation. Today, NOM Participants may not amend the OCC clearing number rather they may only utilize a permissible mnemonic to Give-Up a transaction. With this proposal, the Exchange also proposes to remove the sentence in Options 6, Section 1(a) which states, “All transactions will automatically clear through the Participant's guarantor at the time of the trade” as this will no longer be the case. This amendment provides NOM Participants with greater flexibility.

### Implementation

The Exchange will implement this rule change on or before December 20, 2026. NOM will migrate to the new platform on a symbol-by-symbol basis over a 2-week period.<sup>140</sup> The Exchange will issue an Options Trader Alert to Participants to provide notification of the symbols that will migrate and the relevant dates.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>141</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>142</sup> 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. As it relates to the elimination of fees for TradeInfo and QUO DROP, the Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>143</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>144</sup> in particular, in

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<sup>140</sup> See <https://www.nasdaqtrader.com/MicroNews.aspx?id=OTU2026-2>.

<sup>141</sup> 15 U.S.C. 78f(b).

<sup>142</sup> 15 U.S.C. 78f(b)(5).

<sup>143</sup> 15 U.S.C. 78f(b).

<sup>144</sup> 15 U.S.C. 78f(b)(4) and (5).

that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Generally, the Exchange's proposal is intended to add or align certain System functionality with that of ISE, GEMX, MRX, Phlx, and NTX Options in order to provide a more consistent technology offering across affiliated Nasdaq options exchanges. A more harmonized technology offering, in turn, will simplify technology implementation, changes, and maintenance by market participants of the Exchange that are also participants on Nasdaq affiliated options exchanges. The Exchange's proposal also seeks to provide greater harmonization between the rules of the Exchange and its affiliates, which would result in greater uniformity, and less burdensome and more efficient regulatory compliance by market participants. As such, the proposal would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that more consistent rules will increase the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges, thereby contributing to the protection of investors and the public interest. The proposal also seeks to memorialize existing functionality and add more granularity in the Exchange's rules to describe how existing functionality operates today. The Exchange believes that such changes would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would promote transparency in Exchange rules and reducing potential confusion, thereby ensuring that members, regulators, and the public can more

easily navigate the Exchange's Rulebook and better understand how options trading is conducted on the Exchange.

### **Lead Market Makers**

NOM's proposal to permit NOM Market Makers to act as Lead Market Makers, or "LMMs," in one or more options classes, provided the LMM meets certain obligations and quoting requirements as provided for in the new proposed rules is consistent with the Act. NOM operates in an intensely competitive environment and seeks to offer the same services that its competitors offer and in which its customers find value.

Proposed Options 3, Section 3, Lead Market Maker Allocation, seeks to establish and promote just and equitable principles of trade by requiring each market maker who desires to be an LMM to submit an application to the Exchange providing certain basic information and other information, as necessary. The solicitation process is intended to provide all LMMs an opportunity to seek allocations by requiring allocation applications to be submitted in writing to the Exchange with certain information. The Exchange intends to foster cooperation and coordination with LMMs by requiring information concerning the LMM's experience and capitalization and other information to ensure that an LMM is qualified when allocated option series. LMMs would be required to update information accordingly once they are assigned in an option series.

NOM seeks to allocate option series by considering a number of factors including but not limited to, the number and type of securities in which applicants are currently registered; the capital and other resources of the applicant; recent allocation decisions within the past eighteen months; the desirability of encouraging the entry of new LMMs into the Exchange's market; order flow commitments; any prior transfers of LMM privileges by the applicant and the reasons

therefore; quality of markets data; and observance of ethical standards and administrative responsibilities and such policies as the Board instructs the Exchange to follow in allocating or reallocating securities. These factors are intended to assist the Exchange in determining which LMMs qualify for allocations and the LMM's ability to meet its obligations. The process of allocating securities considers such factors to protect investors and the public interest by allocating to qualified and responsible Options Participants. Further, an LMM may be called upon by NOM Regulation to submit a single quote or maintain continuous quotes in one or more series of an option issue within its appointment whenever, in the judgment of NOM Regulation, it is necessary to do so in the interest of maintaining fair and orderly markets. An LMM will be compelled to buy/sell a specified quantity of option contracts at the disseminated bid/offer pursuant to his obligations with respect to firm quotes.

With respect to proposed new rules in Options 3, Section 4, Obligations of Market Makers and Lead Market Makers, an LMM's obligations in, the Exchange would require LMMs to be subject to heightened standards as compared to other market makers which is consistent with Act and the protection of investors and the general public.

LMM's transactions should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no LMM should enter into transactions or make bids or offers that are inconsistent with such a course of dealings. An LMM is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. The Exchange will obligate an LMM to certain conduct including: (1) to

compete with other LMMs to improve the market in all series of options classes to which the LMM is appointed; (2) to make markets that will be honored for the number of contracts entered into the Trading System in all series of options classes within the LMM's appointment; (3) to update market quotations in response to changed market conditions in all series of options classes within the LMM's appointment; (4) to quote with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid; (5) to establish quote width differences other than as provided in subparagraph (4) for one or more options series; (6) and certain permissible price differentials.

With respect to classes of options contracts outside of their appointment, LMMs will not be permitted to engage in transactions for an account in which they have an interest that are disproportionate in relation to, or in derogation of, the performance of their obligations as specified in this Rule with respect to the classes in their appointment. LMMs are also prohibited from entering into certain agreements that may undermine the LMMs' obligations.

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 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 NOM 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 NOM may announce for which that Participant's assigned options series are open for trading. 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 in addition to the Options Participant fulfilling other market making obligations specified in Options 2, Section 4(a) and (b).

LMMs, 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 NOM may announce in advance, for which that Option Participant's assigned options series are open for trading. An LMM 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 for options on equities and ETFs or with an expiration of twelve months or greater for index options. However, an LMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Options 3, Section 10.<sup>145</sup> Providing an LMM with these enhancements after all Public Customer orders have been fully executed provided the LMM's quote is at or improves on the better of the NBBO or internal BBO as well as an allocation for Orders for 5 contracts or fewer provided the Lead

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<sup>145</sup> See proposed NOM Options 2, Section 4(j)(1).

Market Maker's quote is at the better of the internal BBO or the NBBO with no other Public Customer interest which has a higher priority is consistent with the Act as this will promote liquidity on the Exchange. The Exchange believes that LMM's will provide tighter spreads as a result of the opportunity to receive these enhancements. Tighter spread may cause an additional corresponding increase in order flow from other market participants. The Exchange believes that the obligations set forth for LMMs in its proposed rules will promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest.

The Exchange believes that offering LMMs participation entitlements promotes just and equitable principles of trade because LMMS will be held to a higher standard as compared to other market participants including Market Makers. A Market Maker would be required, pursuant to this proposal, to quote 60% of the trading day. LMMs are being held to a higher obligation and therefore are being rewarded with participation entitlements. Similar to Market Makers, LMMs add value through continuous quoting and the commitment of capital. In addition, the LMM quoting requirements promote liquidity and continuity in the marketplace in requiring LMMs to be held to a higher standard of quoting. The Exchange also believes that the proposed rule change supports the quality of the Exchange's markets because it maintains the quoting obligations of Market Makers as LMMs at 90%. LMM transactions must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. Accordingly, the proposed rule change supports the quality of the Exchange's trading markets by helping to ensure that LMMs will be required to meet a higher quoting standard in order to reap the benefits of the participation entitlements. The Exchange believes this proposed

change to offer participation entitlements to LMMs is offset by LMMs' continued responsibilities to provide significant liquidity to the market to the benefit of market participants.

The proposed rule text at proposed Options 2, Section 3, Options 2, Section 4(e) – (l) and Options 3, Section 10(a)(1)(C)(2) and (3) is identical to rule text on NTX Options at Options 2, Section 3, Options 2, Section 4(e) – (l) and Options 3, Section 10(a)(2)(ii) and

### **Options 2, Section 6**

The Exchange believes that permitting Market Makers to enter all eligible order types, except Reserve Orders as noted in proposed Options 2, Section 6, in both appointed and non-appointed options classes, is consistent with the Act. The proposed text is identical to ISE, GEMX and MRX Options 2, Section 6. Unlike other order types, the Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. The Exchange believes that because a Reserve Order contains a non-displayed portion, Market Makers should not be permitted to enter this order type. Market Makers are required to make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange's System in all series of options classes to which the market maker is appointed.

Market Makers continue to be obligated to add liquidity on the Exchange. Options 2, Section 6(b) restricts the number of contracts that a Market Maker may enter in an options class to which the Market Maker is not appointed. Options 2, Section 5 requires Market Makers to abide by certain quoting requirements, in the options classes in which they are appointed, in

order to maintain the status of a Market Maker. The Exchange believes that permitting a Market Maker to enter additional eligible order types, except Reserve Orders, in their appointed options class will permit Market Makers additional latitude to conduct business on the Exchange and effectively compete with other market makers on other options exchanges. Quotes and orders entered by a Market Maker may not interact against quotes and orders entered on the opposite side of the market by the same Market Maker pursuant to Options 3, Section 15(c)(1) which describes Anti-Internalization.

### **Options 3, Section 3**

The Exchange's proposal to amend Options 3, Section 3(c), to no longer permit quotes to be submitted to the Exchange in sub-pennies is consistent with the Act. Requiring quotes to be submitted in at valid minimum price increments will standardize NOM to the behavior of other Nasdaq affiliated exchanges that do not permit quotes to be permitted in sub-pennies. Other Nasdaq affiliated exchanges require quotes to be submitted in minimum price increments. However, unlike NOM, other Nasdaq affiliated exchanges do not offer Price Improving Orders which are submitted to the Exchange in increments smaller than the minimum price variation.<sup>146</sup> Any quote submitted in a sub-penny would be rejected by the System as a result of the technology migration.

Further, the Exchange's proposal to amend the current text of Options 3, Section 3(c) to provide that quotes are displayed at a minimum price variation pursuant to Options 3, Section

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<sup>146</sup> A Price Improving Order is an order to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. See current Options 3, Section 7(a)(5).

4(b)(6)<sup>147</sup> will harmonize the Exchange’s rule text. Today, quotes are accessible to be traded at the trading increment in which they are entered, however quotes are displayed by the System at a minimum price variation.

### **Options 3, Section 7**

The Exchange believes that the proposed changes to the rules governing Exchange order types are consistent with the Act. As discussed above, the proposed changes consist of several functional enhancements to align the Exchange’s order types to existing ISE, GEMX and MRX order types, and rule adjustments that add more specificity and clarity to existing order types.

#### ***Market Orders***

The Exchange believes that the proposed changes to the definition of Market Orders in proposed Options 3, Section 7(a) are consistent with the Act. The Exchange proposes to amend the description of Market Orders and relocate the order type from Options 3, Section 7(a)(4) to Options 3, Section 7(a) without any substantive change to the rule.

#### ***Limit Orders***

The Exchange’s proposal to amend and relocate “Limit Orders” from current Options 3, Section 7(a)(2) to proposed Options 3, Section 7(b) is consistent with the Act. The Exchange proposes to slightly modify the text in a non-substantive matter to align to ISE, GEMX and MRX Options 3, Section 7(b) with respect to the description of a Limit Order and a Marketable Limit Order to provide at proposed Options 3, Section 7(b) that a Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better. The Exchange proposes

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<sup>147</sup> Options 3, Section 4(b)(6) provides that, 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 offer (for bids) or the current national best bid (for offers) as non-displayed and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

to state at Options 3, Section 7(b)(1) that a Marketable Limit Order is a limit order to buy (sell) at or above (below) the best offer (bid) on the Exchange. The Exchange proposes to define a Fill-or-Kill Orders as a Limit Order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled similar to ISE, GEMX and MRX Options 3, Section 7(b)(2).

The Exchange proposes to amend and relocate the Intermarket Sweep Order from current Options 3, Section 7(a)(7) to proposed Options 3, Section 7(b)(3) under Limit Orders with rule text that is substantively identical except that the Exchange is removing the sentence that state, “ISOs may be entered on the Order Book” and “...are handled within the System pursuant to Options 3, Section 10 and shall not be eligible for routing as set out in Options 5, Section 4.” Because all orders may be entered on the Order Book, the sentence is not necessary. Further, all orders are subject to the allocation process in Options 3, Section 10. ISO orders shall not be routable, as specified in Options 5, Section 4, as it meets the requirements of Options 5, Section 1(8). The Exchange’s proposal aligns NOM’s rule text for ISO Orders with that of ISE, GEMX and MRX at Options 3, Section 7(b)(3).

#### ***All-or-None Orders***

The Exchange’s proposal to amend and relocate the All-or-None Orders or “AON” Orders from current Options 3, Section 7(a)(8) to proposed Options 3, Section 7(c) is consistent with the Act. The Exchange proposes to add a new sentence which states that AON Orders will only execute against multiple, aggregated orders if the executions would occur simultaneously. This is true for NOM today. The handling of AONs as described in the proposed rule text in Options 3, Section 7(c) is consistent with the Exchange’s allocation methodology in Options 3, Section 10. The additional detail makes clear that because of the size contingency of AON

Orders, those orders must be satisfied simultaneously to avoid any priority conflict on the order book, which considers current displayed NBBO prices to avoid locked and crossed markets as well as trade-throughs. Additionally, the rule text will be harmonized to ISE, GEMX and MRX Options 3, Section 7(c). The Exchange also proposes to amend the sentence that states, “All-or-None Orders received prior to the opening cross or after market close will be rejected” to harmonize the rule text to ISE, GEMX and MRX Options 3, Section 7(c). The Exchange proposes to modify this sentence to instead provide that AON Orders may not be submitted during the Opening Process.<sup>148</sup> The current rule text similarly prohibits the submission of AON Orders before the market opens, which occurs at the end of the Opening Process.

### ***Stop and Stop Limit Orders***

The Exchange believes that the proposed new definitions of Stop and Stop-Limit Orders in Options 3, Sections 7(d) and 7(e), respectively, are consistent with the Act and will provide NOM Participants with the opportunity to enter the same types of orders available to those members of ISE, GEMX and MRX. The Exchange proposes to describe a Stop Order as an order that becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Order shall be cancelled if it is immediately electable upon receipt. Stop Orders may only be entered through FIX. A Stop Order shall not be elected by a trade that is reported late.<sup>149</sup> The Exchange also proposes to adopt a Stop Limit Order at proposed Options

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<sup>148</sup> NOM’s amended Opening Process is described in Options 3, Section 8.

<sup>149</sup> ISE and MRX Options 3, Section 7(c) also provide that a Stop Order is not elected by a Complex Order trading with another Complex Order. NOM does not currently offer Complex Orders, therefore it is not adding that sentence.

3, Section 7(e). The Exchange proposes to provide that a Stop Limit Order is an order that becomes a Limit Order when the stop price is elected. A Stop Limit Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Limit Order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price. A Stop Limit Order shall be cancelled if it is immediately electable upon receipt. Stop Limit Orders may only be entered through FIX. A Stop Limit Order shall not be elected by a trade that is reported late or out of sequence.

A Stop Order is not elected by a trade that is reported late to ensure systemically that a Stop Order would be elected on the Exchange by the execution price at the actual time of the execution, instead of at the time that is late. Absent this provision, it would be possible for a Stop Order to be elected by a trade that is reported late, which could result in such Stop Order being converted into a Market Order or a Limit Order and, in the case of a Stop Order executed at a significantly different price than the election price of the Stop Order.<sup>150</sup> A Stop Order that is reported out of sequence would also cause the same concerns.

### ***Cancel and Replace Orders***

The Exchange's proposal to amend and relocate the Cancel and Replace Order description from Options 3, Section 7(a)(1) to proposed Options 3, Section 7(f) is consistent with the Act as the Exchange is not proposing to substantively amend the description of a Cancel and Replace Order, except that the Exchange proposes to introduce Reserve Orders. The Exchange proposes to modify the Cancel and Replace Order so that it is identical to functionality on ISE, GEMX and MRX at Options 3, Section 7(f). The Exchange proposes to state that in the case of

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<sup>150</sup> For example, if a Stop Order to sell at \$3.00 is elected by a trade reported late or out-of-sequence with an execution price of \$3.00 when the actual bid price at the time of the report is \$1.00, the Stop Order would be converted into a market order and executed at \$1.00.

Reserve Orders, the replacement order will retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended or size (displayed and non-displayed) is not changed. Because a Reserve Order has both a displayed and non-displayed portion, this additional language makes clear the System handling for this order type.

Also, the Exchange proposes to add language to provide that if the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Order Price Protection and Market Order Spread Protection within Options 3, Section 15(a)(1) and (a)(2), respectively); the existing order shall be cancelled and not replaced. The Limit Order Price Protection and Market Order Spread Protection are the only risk protections within Options 3, Section 15 (Risk Protections) that are applicable. Price or other reasonability checks consider the current market at the time the Cancel and Replace Order is entered. The Exchange proposes to begin applying price or other reasonability checks to all Cancel and Replace Orders, similar to ISE, GEMX and MRX, to provide market participants with additional risk protection checks with the re-entry of the Cancel and Replace Order. This proposed rule is similar to ISE, GEMX and MRX Rules at Options 3, Section 7 at Supplementary Material .02. All risk protections are noted within Options 3, Section 15. Those risk protections apply throughout the Rulebook, except where otherwise noted. Finally, the Exchange is also proposing to remove the phrase "...with new terms and conditions" to harmonize the rule text to that of ISE, GEMX and MRX at Options 3, Section 7(f).

### ***Reserve Orders***

The Exchange's proposal to adopt a Reserve Order at Options 3, Section 7(g) that is identical to the order type in ISE, GEMX and MRX Options 3, Section 7(g) is consistent with the Act as it will align NOM's proposed functionality for a Reserve Order to that of ISE, GEMX and

MRX and it will create consistent rules thereby increasing the understanding of the Exchange's operations for market participants that are also participants on the Nasdaq affiliated options exchanges which contributes to the protection of investors and the public interest. Both the displayed and non-displayed portions of a Reserve Order would be available for potential execution against incoming marketable orders. A non-marketable Reserve Order would rest on the order book. The displayed portion of a Reserve Order would be ranked at the specified limit price and the time of order entry. This new order type will be available to all Participants, except Market Makers pursuant to proposed Options 2, Section 6. The proposed rule change will promote competition as Reserve Orders will provide Participants with additional flexibility to manage and display their orders and additional control over their executions on the Exchange. This may encourage market participants to bring additional liquidity to the market, which benefits all investors.

#### ***Price Improving Orders***

The Exchange's proposal to relocate Price Improving Orders from current Options 7, Section (a)(5) to proposed Options 3, Section 7(m) without change is a non-substantive amendment and is consistent with the Act.

#### ***Add Liquidity Orders***

The Exchange's proposal to relocate the Add Liquidity Order ("ALO") from current Options 3, Section 7(a)(9) to proposed Options 3, Section 7(n) and amend the rule text to conform to ISE, GEMX, MRX and Phlx, except with respect to re-pricing is consistent with the Act. Today, NOM's Add Liquidity Order differs from the Add Liquidity Orders on ISE, GEMX, MRX and Phlx because NOM's Add Liquidity Order 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). In contrast, ISE, GEMX, MRX and Phlx re-price to the minimum price variation 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. Unlike ISE, GEMX, MRX and Phlx, NOM does not offer auction functionality. The Exchange is not amending NOM's re-pricing. With this migration, the Exchange will not permit Add Liquidity Orders received prior to the Opening Process to be eligible for execution during the Opening Process. The Exchange believes that not permitting Add Liquidity Orders during the Opening Process is consistent with the Act because these orders cannot add liquidity during the Opening Process at Options 3, Section 8.<sup>151</sup> With the new Opening Process, Add Liquidity Orders would be excluded from the Opening Process. Finally, today, Add Liquidity Orders may not have a time-in-force designation of Good Till Cancelled or Immediate or Cancel. The Exchange has added a Good-Till-Date Time in Force with this proposal, so at this time, the Exchange proposes to simply note that Add Liquidity Orders may only have a time-in-force designation of Day.

### ***Opening Sweep***

The Exchange's proposal to adopt a new order type at proposed Options 3, Section 7(u), "Opening Sweep" that is identical to ISE, GEMX and MRX Options 3, Section 7(u) is consistent with the Act as it will allow NOM's Participants to trade with an order type identical to NTX Options Participants who utilize the same Opening Process as proposed herein for NOM. An Opening Sweep is a one-sided order entered by a Market Maker through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Options 3, Section 15, except for Automated Quotation Adjustments

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<sup>151</sup> The Exchange is also adopting a new Opening Process with this proposal.

and Market Wide Risk Protection. The Opening Sweep will only participate in the Opening Process pursuant to Options 3, Section 8(b) and will be cancelled upon the open if not executed. The Exchange also proposes to amend the Opening Halt Cross at Options 3, Section 8 to describe the Opening Sweep in the proposed changes to that rule.

### ***Time in Force Provisions***

The Exchange's proposal to relocate the rule text concerning Time in Force from current Options 3, Section 7(b)<sup>152</sup> to Supplementary Material .02 to Options 3, Section 7 without change is a non-substantive amendment.

### ***Day Order***

The Exchange's proposal to relocate a Day TIF from current Options 3, Section 7(b)(3)<sup>153</sup> to new Supplementary Material .02(a) to Options 3, Section 7 without substantive change is consistent with the Act. The minor proposed wording changes to the rule text of Day Order are identical to ISE, GEMX and MRX Supplementary Material .02(a) to Options 3, Section 7.<sup>154</sup>

### ***Good-Till-Cancelled***

The Exchange's proposal to amend and relocate Good-Till-Cancelled from Options 3, Section 7(b)(4)<sup>155</sup> to proposed Supplementary Material .02(b) to Options 3, Section 7 is consistent with the Act as the Exchange is not amending the System functionality of this order

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<sup>152</sup> Current NOM Options 3, Section 7(b) states, The term "Time in Force" or "TIF" shall mean the period of time that the System will hold an order for potential execution, and shall include:

<sup>153</sup> "DAY" is an order entered with a TIF of "Day" that expires at the end of the day on which it was entered, if not executed. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX. See current NOM Options 3, Section 7(b)(3).

<sup>154</sup> NOM does not have a Precise protocol similar to ISE and GEMX.

<sup>155</sup> "Good Til Cancelled" or "GTC" is an order entered with a TIF of "GTC" that, if not fully executed, will remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange until market close. GTC Orders may only be entered through FIX. See current NOM Options 3, Section 7(b)(4).

type and the proposed amendments to the text are non-substantive. The Exchange proposes to amend the current rule text to provide that an order to buy or sell entered with a TIF of “GTC” remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The first sentence of the current text is simply worded differently; today GTC orders are canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. The Exchange is adding this rule text concerning a corporate action to clarify the current System behavior. The proposed GTC description is identical to the rule text in ISE, GEMX and MRX Supplementary Material .02(b) to Options 3, Section 7.

***Good-Till-Date***

The Exchange’s proposal to adopt a new TIF designation, Good-Till-Date or “GTD” at Supplementary Material .02(c) to Options 3, Section 7 which is identical to ISE, GEMX and MRX’s Good-Till-Date TIF at Supplementary Material .02(c) to Options 3, Section 7 is consistent with the Act because this additional TIF will provide Participants with additional opportunities when trading on the Exchange. A Good-Till-Date TIF is an order to buy or sell entered with a TIF of “GTD,” which, if not executed, would be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series; provided, however, that GTD Orders would be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract. GTD Orders will only be available on FIX, similar to ISE, GEMX and MRX Supplementary Material .02(c) to Options 3, Section 7.

### ***Immediate-or-Cancel***

The Exchange's proposal to relocate Immediate-or-Cancel from Options 3, Section 7(c)(2)<sup>156</sup> to Supplementary Material .02(d) to Options 3, Section 7 with minor non-substantive wording amendments that are intended to align with rule text in ISE, GEMX and MRX Supplementary Material .02(d) to Options 3, Section 7 is consistent with the Act.

### ***Opening Only***

The Exchange's proposal to replace the "On the Open Order" time-in-force or "TIF" currently located at Options 3, Section 7(b)(1) with an "Opening Only" or "OPG" TIF, which can only be executed in the Opening Process pursuant to Options 3, Section 8 is consistent with the Act. Any portion of an Opening Only order that is not executed during the Opening Process would be cancelled. This order type would not be subject to any protections listed in Options 3, Section 15. Finally, the Exchange proposes to note that OPG orders may not route. This order type is identical to the OPG order in ISE, GEMX and MRX Supplementary Material .02(e) to Options 3, Section 7.

### ***Order Entry Protocols***

The Exchange's proposal to amend the FIX protocol to note that similar to ISE, GEMX and MRX at Supplementary Material .03(a) to Options 3, Section 7, that the Exchange will commence offering post trade allocation messages is consistent with the Act as it will allow NOM Participants the same functionality that is available to ISE, GEMX and MRX members today. A post trade allocation message allows market participants to specify how an order

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<sup>156</sup> Current NOM Options 3, Section 7(b)(2) states (d) "Immediate-or-Cancel" or "IOC" is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled and/or routed pursuant to Participant's instruction. IOC orders may be entered through FIX, or SQF, provided that an IOC Order entered by a Market Maker through SQF is not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2), and (b)(2), respectively. IOC Orders entered through SQF may not route.

should be subdivided among one or more accounts.<sup>157</sup> Today, ISE, GEMX and MRX provide post trade allocation messages through FIX.<sup>158</sup>

The Exchange does not propose to amend the SQF Protocol other than to re-letter the protocol from “B” to “c” within Supplementary Material .03 to Options 3, Section 7.

The Exchange’s proposal to amend “QUO” (renamed OTTO) to no longer treat orders as quotes entered by Market Makers and permit order entry by all NOM Participants as two-sided orders is consistent with the Act as the Exchange believes that this amendment will expand the use of this protocol to all NOM Participants instead of just Market Makers. The protocol will otherwise continue to function as it does today, except that orders would now be subject to the Order Price Protection or Size Limitation in Options 3, Section 15(a)(1) and (b)(2). The protocol would continue to include (1) options symbol directory messages (e.g., underlying); (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) order messages; and (6) risk protection triggers and cancel notifications. SQF would continue to be available for Market Makers for quote entry. This new protocol would be in addition to the FIX protocol. The Exchange believes that this amended protocol will allow a greater number of market participants on NOM to utilize the protocol. Additionally, the protocol would be identical to the OTTO protocol offered on all other Nasdaq affiliated options markets.

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<sup>157</sup> For example, a member may specify the account(s) and their respective order quantities which make up the order.

<sup>158</sup> See ISE, GEMX and MRX Supplementary Material .03(a)(i) of Options 3, Section 7.

### ***Routing***

The Exchange's proposal to relocate the rule text at Options 3, Section 7(c)<sup>159</sup> to Supplementary Material .04 of Options 3, Section 7 and amend that rule text to provide "Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX only" are consistent with the Act. The Exchange proposes to align NOM's routing options to that of all other Nasdaq affiliated options markets by offering FIND as a routing options in lieu of SEEK as explained in this proposal.

### ***Order Size***

The Exchange's removal of the term "Order Size" is consistent with the Act as that term is not utilized in the Exchanges rules.

### **Options 3, Section 8**

The Exchange's proposal to amend Options 3, Section 8, Opening Halt Cross, by replacing it with an opening that is identical to NTX Options at Options 3, Section 8 except which respect to the offering of Reserve Orders, is consistent with the Act because it will enhance NOM's current opening while retaining certain elements of its current process, such as the Valid Width NBBO.<sup>160</sup> Also, the proposed amendments will continue to allow NOM to open with an optimal price, as the proposed rule further limits the opening price boundaries. At a high level, the proposal would permit the price of the underlying security to settle down and not flicker back and forth among prices after its opening. It is common for a stock to fluctuate in price immediately upon opening; such volatility reflects a natural uncertainty about the ultimate

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<sup>159</sup> Current NOM Options 3, Section 7(c) provides, Routing Strategies. Orders may be entered on the Exchange with a routing strategy of SEEK, SRCH or Do-Not-Route ("DNR") as provided in Options 5, Section 4 through FIX only.

<sup>160</sup> The Exchange proposes to retain the Valid Width NBBO requirements with respect to Opening With a Trade pursuant to proposed Options 3, Section 8(i) and (j).

Opening Price, while the buy and sell interest is matched. The proposed rule provides for a range of no less than 100 milliseconds and no more than 5 seconds, in order to ensure that it has the ability to adjust the period for which the underlying security must be open on the primary market. The Exchange may determine that in periods of high/low volatility that allowing the underlying to be open for a longer/shorter period of time may help to ensure more stability in the marketplace prior to initiating the Opening Process.

### Definitions

The Exchange's proposal amends and alphabetizes the current definitions within Options 3, Section 8(a). The Exchange proposes to set forth the following terms: "Away Best Bid or Offer" or "ABBO;" "imbalance;" "market for the underlying security;" "Opening Price;" "Opening Process;" "Potential Opening Price;" "Pre-Market BBO;" "Valid Width National Best Bid or Offer" or "Valid Width NBBO;" "Valid Width Quote," and "Zero Bid Market." The amendment of the "Definitions" section is consistent with the Act because the terms will assist market participants in understanding the meaning of terms used throughout the proposed Rule.

With respect to the amendment to the definition of the term, "market for the underlying security," the Exchange's proposal would remove the concept of a primary volume market and replace that concept with an alternative market designated by the primary market. It is most likely the case that the primary market is the primary volume market, so this term offers no contingency in most cases. The primary market has the ability to designate an alternate primary market when the primary market is experiencing difficulties. In those situations, the Exchange proposes to utilize the alternate primary market to open its market. For example, in the event that the New York Stock Exchange LLC was unable to open because of an issue with its market and it designated NYSE Arca as its alternative market, then NOM would utilize NYSE Arca as the market for the underlying security.

Second, the Exchange proposes another alternative in the event that the primary market does not open, and an alternate primary market is not designated and/or is also unable to open. In this situation, the Exchange proposes to utilize a non-primary market to open its market. The Exchange will select the non-primary market with the most liquidity in the aggregate for all underlying securities from the primary market for the previous two calendar months, excluding the primary and alternate markets. For example, in the event that the New York Stock Exchange LLC was unable to open because of an issue with its market and it designated NYSE Arca as its alternative market, and the alternate primary was unable to open or NYSE was unable to designate an alternate market because of system difficulties, then NOM would determine which non-primary market had the most liquidity in the aggregate for all underlying securities for the previous two calendar months, excluding the primary and alternate markets. The Exchange would utilize that market to open all underlying securities from the primary market. In order to open an option series, it would require an equity market's underlying quote. Utilizing a non-primary market with the most liquidity in the aggregate for all underlying securities for the previous two calendar months will ensure that the Exchange opens based on the next best alternative to the primary market given the circumstances. This contingency will provide the Exchange with the ability to open in situations where the primary market is experiencing an issue, and also where an alternative primary market may also be impacted. The Exchange believes that this proposal would protect investors and the general public by providing additional venues for NOM to utilize as part of its Opening Process and thereby allow investors to transact on its market. The Exchange desires to open its market despite any issues that may arise with the underlying market. The Exchange proposes alternate methods to open its market to account for situations which may arise if the primary market is unable to open, and if the proposed alternate

designated market is unable to open. Once the market opens with an underlying price, the options market may continue to trade for the remainder of the trading day. The Exchange believes it benefits investors and the general public to have the options market available to enter new positions, or close open positions. This term is identical to NTX Options at Options 3, Section 8(a).

#### Eligible Interest

The first part of the proposed Opening Process determines what constitutes eligible interest. The Exchange's proposal seeks to make clear what type of eligible opening interest is included. Valid Width Quotes, Opening Sweeps, and orders are included. Market Makers may submit quotes, Opening Sweeps and orders, however quotes, other than Valid Width Quotes, will not be included in the Opening Process. The Exchange believes that defining what qualifies as eligible interest is consistent with the Act because market participants will be provided with certainty, when submitting interest, as to which type of interest will be considered in the Opening Process.

Unlike the regular session where orders route if they cannot execute on NOM, the Opening Process is a price discovery process which considers interest, both on NOM and away markets, to determine the optimal bid and offer with which to open the market. The Opening Process seeks the price point at which the most number of contracts may be executed while protecting away market interest.

The Exchange's proposal to define an "Opening Sweep" within NOM Options 3, Section 7(b)(9) is identical to NTX Options at Options 3, Section 7(b)(9). As described in the order types section, the Exchange proposes to remove the current order type described as "On the

Open Order” and instead adopt an “Opening Sweep” order type.<sup>161</sup> The adoption of an Opening Sweep is consistent with the Act because the order type will permit Market Makers to continue to submit orders during the Opening Process for execution against eligible interest in the System. Other market participants may continue to also submit orders with a TIF of “OPG” for the Opening Process. As is the case today, only a Market Maker may enter an Opening Sweep into SQF for execution against eligible interest in the System during the Opening Process. Therefore, all Participants will continue to be able to enter orders into the Opening Process.

As mentioned in the order types section above, NOM also proposes to replace its current “TIF” of “On the Open Order” or “OPG” to an “Opening Only” or “OPG” TIF, which can only be executed in the Opening Process pursuant to Options 3, Section 8.<sup>162</sup> Any portion of the order that is not executed during the Opening Process is cancelled. The Exchange believes that the adoption of the Opening Sweep and OPG Order is consistent with the Act in that Participants will be able to continue to submit orders to be entered into the Opening Process. These order types would continue to be invalid outside of the Opening Process; they may not be submitted in the regular trading session.

With respect to an Opening Sweep, the Exchange further provides the manner in which Opening Sweeps may be entered into the System. The Exchange proposes rule text within Options 3, Section 8(b)(1)(B) identical to NTX Options at Options 3, Section 8(b)(1)(B). An Opening Sweep may be entered at any price with a minimum price variation applicable to the affected series, on either side of the market, at single or multiple price level(s), and may be cancelled and re-entered. A single Market Maker may enter multiple Opening Sweeps, with

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<sup>161</sup> See proposed NOM Options 3, Section 7(u).

<sup>162</sup> See proposed Supplementary Material .02(e) to NOM Options 3, Section 7.

each Opening Sweep at a different price level. If a Market Maker submits multiple Opening Sweeps, the System will consider only the most recent Opening Sweep at each price level submitted by such Market Maker. Unexecuted Opening Sweeps will be cancelled once the affected series is open.<sup>163</sup> The Exchange believes that the addition of Opening Sweeps will also provide certainty to market participants as to the manner in which the System will handle such interest.

With respect to trade allocation, proposed Options 3, Section 8(b)(2) states that the System will allocate pursuant to Options 3, Section 10, as is the case today. This rule text is identical to NTX Options at Options 3, Section 8(b)(2). The allocation methodology is not being amended with this proposal. The Exchange believes that this allocation is consistent with the Act because it is identical to the current allocation process on NOM in other trading sessions.

The Exchange proposes at Options 3, Section 8(d) the specific times that eligible interest may be submitted into NOM's System. The Exchange's proposed time for entering Market Maker Valid Width Quotes and Opening Sweeps (9:25 AM) eligible to participate in the Opening Process, are consistent with the Act because the times are intended to tie the option Opening Process to quoting in certain underlying securities<sup>164</sup> it presumes that option quotes submitted before any indicative quotes have been disseminated for the underlying security may not be reliable or intentional. The Exchange believes the time represents a reasonable timeframe at which to begin utilizing option quotes, based on the Exchange's experience when underlying quotes start becoming available. The proposed language adds specificity to the rule regarding the submission of orders. This rule text is identical to NTX Options at Options 3, Section 8(d).

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<sup>163</sup> See proposed NOM Options 3, Section 8(b)(1)(B).

<sup>164</sup> For purposes of this rule, the underlying security can also be an index.

The Exchange's proposal at Options 3, Section 8(d)(1) describes when the Opening Process can begin with specific time-related triggers. The proposed rule, which provides that the Opening Process for an option series will be conducted on or after 9:30 AM, when the System has received an opening trade or quote on the market for the underlying security in the case of equity options or in the case of index options is consistent with the Act. This requirement is intended to tie the option Opening Process to receipt of liquidity. If the System has not received an opening trade or quote on the market for the underlying security, the Exchange will not initiate the Opening Process or continue an ongoing Opening Process. The Exchange's proposal to amend its Opening Process is consistent with the Act because the new rule continues to seek the best price. This rule text is identical to NTX Options at Options 3, Section 8(d)(1).

Proposed Options 3, Section 8(d)(2) provides that for all options, the underlying security, including indexes, must be open on the market for the underlying security for a certain time period, as determined by the Exchange, for the Opening Process to commence. The time period shall be no less than 100 milliseconds and no more than 5 seconds.<sup>165</sup> This rule text is identical to NTX Options at Options 3, Section 8(d)(2). The Exchange's proposed rule considers the underlying security, including indexes, which must be open on the primary market for a certain time period for all options to be determined by the Exchange for the Opening Process to commence. The Exchange proposes a time period be no less than 100 milliseconds and no more than 5 seconds to permit the price of the underlying security to settle down and not flicker back and forth among prices after its opening. Since it is common for a stock to fluctuate in price immediately upon opening, the Exchange accounts for such volatility in its process. The volatility reflects a natural uncertainty about the ultimate Opening Price, while the buy and sell

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<sup>165</sup> See supra note 73.

interest is matched. The Exchange's proposed range is consistent with the Act, because it ensures that it has the ability to adjust the period for which the underlying security must be open on the primary market. The Exchange may determine that in periods of high/low volatility that allowing the underlying to be open for a longer/shorter period of time may help to ensure more stability in the marketplace prior to initiating the Opening Process. This rule text is identical to NTX Options at Options 3, Section 8(d)(2).

Proposed Options 3, Section 8(d)(3) provides that the Opening Process will stop and an option series will not open if the ABBO becomes crossed. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to proposed paragraphs (f) - (k) of Options 3, Section 8. All eligible opening interest will continue to be considered during the Opening Process when the process is re-started. Not opening if the ABBO becomes crossed is consistent with the Act and the protection of investors and the public interest because a crossed ABBO is indicative of uncertainty in the marketplace with respect to where the option series should be valued. Waiting for the ABBO to become uncrossed before initiating the Opening Process ensures that there is stability in the marketplace and will assist the Exchange in determining the Opening Price. NOM will not consider if a Valid Width Quote(s) is no longer present. This rule text is identical to NTX Options at Options 3, Section 8(d)(3).

The Exchange's proposal to add rule text, within proposed Options 3, Section 8(d)(4), to make clear that the Exchange would not open with a trade, pursuant to proposed paragraph (i)(2) if a Valid Width NBBO is not present is consistent with the Act. Once this condition no longer exists, the Opening Process in the affected options series will start again pursuant to paragraphs (j) and (k) below. Today, NOM would not open with a trade unless there is a Valid Width NBBO present. This would remain the case with this proposal. The Exchange believes that the

addition of this text provides market participants with an expectation of the circumstances under which the Exchange would open an option series, as well as price protection afforded to interest attempting to participate in the Opening Process on NOM. This rule text is identical to NTX Options at Options 3, Section 8(d)(4).

#### Reopening After a Trading Halt

In order to provide certainty to market participants in the event of a trading halt, the Exchange provides in its proposal information regarding the manner in which a trading halt would impact the Opening Process. Proposed Options 3, Section 8(e) provides if there is a trading halt or pause in the underlying security, the Opening Process will start again, irrespective of the specific times listed in paragraph (d). The Exchange's proposal to restart, in the event of a trading halt, is consistent with the Act and promotes just and equitable principles of trade because the proposed rule ensures that there is stability in the marketplace in order to assist the Exchange in determining the Opening Price. Current NOM Options 3, Section 8(b) similarly provides that an Opening Cross shall occur when trading resumes after a trading halt. This rule text is identical to NTX Options at Options 3, Section 8(e).

#### Opening with a BBO

The Exchange's proposed rule at Options 3, Section 8(f) accounts for a situation where there are no opening quotes or orders that lock or cross each other and no routable orders locking or crossing the ABBO. In this situation, the System will open with an opening quote by disseminating the Exchange's best bid and offer among quotes and orders ("BBO") that exist in the System at that time, if any of the conditions are met (1) a Valid Width NBBO is present; (2) a certain number of other options exchanges (as determined by the Exchange) have disseminated a firm quote on OPRA; or (3) a certain period of time (as determined by the Exchange) has elapsed. These three conditions are similar to NOM's current rule text within Options 3, Section

8(b). The Exchange desires to maintain these three potential conditions which it believes are valid sources of liquidity to determine an Opening Price. NTX Options has identical rule text at Options 3, Section 8(f).

#### Further Opening Processes and Price Discovery Mechanism

The proposed rule at Options 3, Section 8(g), (h) and (i) promotes just and equitable principles of trade because, in arriving at the Potential Opening Price, the rule considers the maximum number of contracts that can be executed, which results in a price that is logical and reasonable in light of away markets and other interest present in the System. As noted herein, the Exchange's Opening Price is bounded by the OQR without trading through the limit price(s) of interest within OQR, which is unable to fully execute at the Opening Price, in order to provide Participants with assurance that their orders will not be traded through. Although the Exchange applies other boundaries such as the BBO, the OQR provides a range of prices that may be able to satisfy additional contracts while still ensuring a reasonable Opening Price. The Exchange seeks to execute as much volume as is possible at the Opening Price. When choosing between multiple Opening Prices when some contracts would remain unexecuted, using the lowest bid or highest offer of the largest sized side of the market promotes just and equitable principles of trade because it uses size as a tie breaker.

The System will calculate an OQR pursuant to proposed Options 3, Section 8(j) for a particular option series that will be utilized in the price discovery mechanism if the Exchange has not opened, pursuant to the provisions in Options 3, Section 8(d)-(i). OQR would broaden the range of prices at which the Exchange may open to allow additional interest to be eligible for consideration in the Opening Process. OQR is intended to limit the Opening Price to a reasonable, middle ground price, and thus reduce the potential for erroneous trades during the Opening Process. Although the Exchange applies other boundaries such as the BBO, the OQR

provides a range of prices that may be able to satisfy additional contracts while still ensuring a reasonable Opening Price. More specifically, the Exchange's Opening Price is bounded by the OQR without trading through the limit price(s) of interest within OQR, which is unable to fully execute at the Opening Price in order to provide participants with assurance that their orders will not be traded through. The Exchange seeks to execute as much volume as is possible at the Opening Price.

The Exchange's method for determining the Potential Opening Price and Opening Price is consistent with the Act because the proposed process seeks to discover a reasonable price and considers both interest present in NOM's System as well as away market interest. The Exchange's method seeks to validate the Opening Price and avoid opening at aberrant prices. The rule provides for opening with a trade, which is consistent with the Act, because it enables an immediate opening to occur within a certain boundary without need for the price discovery process. The boundary provides protections while still ensuring a reasonable Opening Price.

The proposed rule considers more than one Potential Opening Price, which is consistent with the Act, because it forces the Potential Opening Price to fall within the OQR boundary, thereby providing price protection. Specifically, the mid-point calculation balances the price among interest participating in the Opening, when there is more than one price at which the maximum number of contracts could execute. Limiting the mid-point calculation to the OQR, when a price would otherwise fall outside of the OQR, ensures the final mid-point price will be within the protective OQR boundary. If there is more than one Potential Opening Price possible, where no contracts would be left unexecuted and any price used for the mid-point calculation is an away market price, when contracts will be routed, the System will use the away market price as the Potential Opening Price.

The Exchange's proposal to route all interest, pursuant to Options 3, Section 10(a)(1), is consistent with the Act. The Exchange believes that routing all routable interest will provide all market participants the opportunity to have their interest executed on away markets.

The price discovery mechanism at proposed Options 3, Section 8(k) reflects what is generally known as an imbalance process and is intended to attract liquidity to improve the price at which an option series will open as well as to maximize the number of contracts that can be executed on the opening. This process will only occur if the Exchange has not been able to otherwise open an option series utilizing the other processes available in proposed NOM Options 3, Section 8. The Exchange believes the process presented in the price discovery mechanism is consistent with just and equitable principles of trade because the process applies a proposed, wider boundary to identify the Opening Price and seeks additional liquidity. The price discovery mechanism also promotes just and equitable principles of trade by taking into account whether all interest can be fully executed, which helps investors by including as much interest as possible in the Opening Process. The Exchange believes that conducting the price discovery process in these situations protects opening orders from receiving a random price that does not reflect the totality of what is happening in the markets on the opening and also further protects opening interest from receiving a potentially erroneous execution price on the opening. Opening immediately has the benefit of speed and certainty, but that benefit must be weighed against the quality of the execution price and whether orders were left unexecuted. The Exchange believes that the proposed rule strikes an appropriate balance. Today, NOM would start imbalance messages even without a Valid Width NBBO. With the proposed amendments, NOM would not start the imbalance process unless a Valid Width NBBO was present.

It is consistent with the Act not to consider away market liquidity, i.e., away market volume, until the price discovery mechanism occurs because this proposed process provides for a swift, yet conservative opening. The Exchange is bounded by the Pre-Market BBO when determining an Opening Price. The away market prices would be considered, albeit not immediately. It is consistent with the Act to consider interest on the Exchange prior to routing to an away market, because the Exchange is utilizing the interest currently present on its market to determine a quality Opening Price.<sup>166</sup> The Exchange will attempt to match interest in the System, which is within the OQR, and not leave interest unsatisfied that was otherwise at that price. The Exchange will not trade-through the away market interest in satisfying this interest at the Exchange. The proposal attempts to maximize the number of contracts that can trade, and is intended to find the most reasonable and suitable price, relying on the maximization to reflect the best price.

With respect to the manner in which the Exchange disseminates an Imbalance Message, as proposed within NOM Options 3, Section 8(k)(1)(A), the Imbalance Message is intended to attract additional liquidity, much like an auction, using an auction message and timer. The Imbalance Timer is consistent with the Act because it would provide a reasonable time for participants to respond to the Imbalance Message before any opening interest is routed to away markets and, thereby, maximize trading on the Exchange. The Imbalance Timer would be for

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<sup>166</sup> Opening with a quote, pursuant to proposed Options 3, Section 8(f), would not require consideration of away market quotes because NOM would have opened with a local quote that was not locked or crossed with the away market, provided there are no opening quotes or orders that lock or cross each other, and no routable orders locking or crossing the ABBO. With respect to Opening with a Trade, pursuant to Options 3, Section 8(i), the Exchange would not consider away market interest if it could open immediately with a trade, provided that the Exchange would never trade-through an away market. If NOM is locked and crossed with an away market, then the Exchange would require additional price discovery, pursuant to paragraphs (j) and (k).

the same number of seconds for all options traded on the Exchange.<sup>167</sup> This process will repeat, up to four iterations, until the options series opens. The Exchange believes that this process is consistent with the Act because the Exchange is seeking to identify a price on the Exchange without routing away, yet which price may not trade through another market and the quality of which is addressed by applying the OQR boundary.

Proposed Options 3, Section 8(k)(3)(C) provides if the total number of better priced away contracts, plus the number of contracts available at the Exchange Opening Price, plus the contracts available at away markets at the Exchange Opening Price, would satisfy the number of marketable contracts the Exchange has on either the buy or sell side, the System will contemporaneously route a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price (pricing any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price), trade available contracts on the Exchange at the Exchange Opening Price, and route a number of contracts that will satisfy interest at other markets at prices equal to the Exchange Opening Price. This provision is consistent with the Act because it considers routing to away markets potentially both at a better price than the Exchange Opening Price, as well as at the Exchange Opening Price, to access as much liquidity as possible to maximize the number of contracts able to be traded as part of the Opening Process. The Exchange routes at the better of the Exchange's Opening Price or the order's limit price to first ensure the order's limit price is not violated. Routing away at the

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<sup>167</sup> The Imbalance Timer would initially be set 200 milliseconds. NTX Options' Imbalance Timer is currently set at 200 milliseconds. NOM will issue a notice to provide the initial setting and would thereafter issue a notice if it were to change the timing. See supra note 89. If NOM were to select a time which exceeds 3 seconds, it would be required to file a rule proposal with the Commission. Further, the Exchange notes that the Route Timer at proposed Options 3, Section 8(k)(3)(B) would be a brief timer that operates as a pause before an order is routed to an away market. Currently, the NTX Options Route Timer is set to one second. NOM's Route Timer will also be initially set to one second. The Exchange will issue a notice to Participants to provide the initial setting and would thereafter issue a notice to Participants, if it were to change. See supra note 89.

Exchange's Opening Price is intended to achieve the best possible price available at the time the order is received by the away market. The System will price any contracts routed to away markets at the Exchange's Opening Price or pursuant to proposed Options 3, Section 8(k)(3)(C)(ii) or (iii) described below. Routing away at the Exchange's Opening Price is intended to achieve the best possible price available at the time the order is received by the away market. The System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price pursuant to Options 3, Section 8(k)(3)(C)(ii). Finally, Options 3, Section 8(k)(3)(C)(iii) is intended to introduce routing to away markets, potentially both at a better price than the Exchange Opening Price, as well as at the Exchange Opening Price to access as much liquidity as possible to maximize the number of contracts able to be traded as part of the Opening Process. The Exchange routes at the better of the Exchange's Opening Price or the order's limit price to first ensure the order's limit price is not violated. Routing away at the Exchange's Opening Price is intended to achieve the best possible price for the routed order, at the time the order is received by the away market.

Proposed Options 3, Section 8(k)(3)(E), entitled "Forced Opening," provides for the situation where, as a last resort, the Exchange may open an options series when the processes described above have not resulted in an opening of the options series. Under a Forced Opening, the System will open the series executing as many contracts as possible by routing to away markets at prices better than the Exchange Opening Price for their disseminated size, trading available contracts on the Exchange at the Exchange Opening Price, bounded by OQR (without trading through the limit price(s) of interest within OQR, which is unable to be fully executed at the Opening Price). The System will also route interest to away markets at prices equal to the Exchange Opening Price at their disseminated size. In this situation, the System will price any

contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted interest from the imbalance not traded or routed will be cancelled back to the entering participant, if they remain unexecuted and priced through the Opening Price, otherwise orders will remain in the Order Book. The Exchange believes that this process is consistent with the Act because after attempting to open by soliciting interest on NOM and considering other away market interest and considering interest responding to Imbalance Messages, the Exchange could not otherwise locate a fair and reasonable price with which to open options series.

The Exchange's proposal to memorialize the manner in which proposed rule will cancel and prioritize interest provides certainty to market participants as to the priority scheme during the Opening Process.<sup>168</sup> The Exchange's proposal to execute Market Orders first and then Limit Orders is consistent with the Act because these orders have no specified price and Limit Orders will be executed, thereafter, in accordance with the prices specified due to the nature of these order types. This is consistent with the manner in which these orders execute after the opening today.

Proposed Options 3, Section 8(k)(7), which provides upon opening of the option series, regardless of an execution, the System dissemination of the price and size of the Exchange's BBO, is consistent with the Act because it clarifies the manner in which the Exchange establishes the BBO for purposes of reference upon opening.

Proposed Options 3, Section 8(k)(8) accounts for remaining contracts, which did not price through the Opening Price. These contracts would post on the Order Book at the better of the away market price or the order's limit price. Specifically, any remaining contracts, which are

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<sup>168</sup> See proposed Options 3, Section 8(j) and (k)(6)(B).

not priced through the Exchange Opening Price after routing a number of contracts to satisfy better priced away contracts, will be posted to the Order Book at the better of the away market price or the order's limit price. This includes DNR Orders that are not crossed with the Opening Price. Only in the event that ABBO interest, which the DNR Order would otherwise be crossing, has been satisfied by routable interest during the Opening Process would DNR Orders be included within the remaining contracts described in proposed Options 3, Section 8(k)(8).<sup>169</sup> This rule text accounts for orders which have routed away and returned unsatisfied, and also accounts for interest that remains unfilled during the Opening Process, provided that interest was not priced through the Opening Price. The Exchange believes that the proposed text in Options 3, Section 8(k)(8) is consistent with the Act in that the Exchange is accounting for the handling of all interest in the Opening Process with this rule text. NTX Options has identical rule text at Options 3, Section 8(g)-(k).

#### Opening Process Cancel Timer

The Exchange's proposal to retain its Opening Process Cancel Timer within proposed NOM Options 3, Section 8(l), with rule text modifications to conform the rule text to NTX Options at Options 3, Section 8(l), is consistent with the Act. The cancel timer will continue to provide Participants with the ability to elect to have orders returned, except for non-GTC and GTD, which are proposed to be added herein. This functionality provides Participants with choice, when symbols do not open, about where, and when, they can send orders for the opening that would afford them the best experience.

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<sup>169</sup> DNR Orders that are not crossed with the Opening Price rest on the Order Book at the better of the ABBO price or the DNR Order's limit order price.

### **Options 3, Section 9**

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, at (a)(6)(B) to amend "cancelled" to "not maintained" is a non-substantive amendment intended to conform to the rules of NTX Options to indicate that quotes are not maintained during a trading halt at Options 3, Section 9(a)(6)(B).

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, at (d)(2) to address the manner in which a Stop Order will be treated during a trading halt is consistent with the Act. The proposed text is identical to the treatment of Stop Orders at ISE, GEMX and MRX Options 3, Section 9(d)(3). After the opening, the Exchange will elect Stop Orders, as defined in Options 3, Section 7(d), and, because they become Market Orders, will cancel them back and notify Participants of the reason for such cancellation. Stop Orders would become elected as provided for in proposed Options 3, Section 7(d).<sup>170</sup>

Finally, the proposed changes to Options 3, Section 9(f) are consistent with the Act as they align to the proposed changes to Options 3, Section 8 and are identical to NTX Options at Options 3, Section 9(f). This new rule text provides more specificity as to the manner in which a trading halt shall be resumed and the governing rule for resumption after a halt with the new Opening Process.

### **Options 3, Section 10**

The Exchange's proposal to amend Options 3, Section 10, Order Book Allocation, is consistent with the Act. Amending the description of Size Pro-Rata to account for the addition of Reserve Orders that were described in the order types section is consistent with the Act

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<sup>170</sup> As proposed in NOM Options 3, Section 7(d), a Stop Order becomes a Market Order when the stop price is elected. A Stop Order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A Stop Order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

because it will account for the non-displayed portions of a Reserve Order. The proposed new text describes the allocation methodology for display order portion of Reserve Order as well as any other order type, resting orders and quotes beginning with the resting order or quote displaying the largest size proportionally according to displayed size, based on the total number of contracts displayed at that price. Next, the proposed rule provides how non-displayed orders are allocated. If there are still contracts to be allocated after the displayed size of all orders at that price has been executed, the remaining size from the incoming order will be allocated proportionally against non-displayed interest according to remaining total size of each resting order at such price, beginning with the order which has the largest total size remaining. This rule text, which is identical to NTX Options at Options 3, Section 10(a)(1)(B), will provide Participants with a description of the handling of Reserve Orders with respect to allocation.

The Exchange believes that offering LMMs participation entitlements promotes just and equitable principles of trade because LMMS will be held to a higher standard as compared to other market participants including Market Makers. A Market Maker would be required, pursuant to this proposal, to quote 60% of the trading day. LMMs are being held to a higher obligation (90%) and therefore are being rewarded with participation entitlements. Similar to Market Makers, LMMs add value through continuous quoting and the commitment of capital. In addition, the LMM quoting requirements promote liquidity and continuity in the marketplace in requiring LMMs to be held to a higher standard of quoting. The Exchange also believes that the proposed rule change supports the quality of the Exchange's markets because it maintains the quoting obligations of Market Makers as LMMs at 90%. LMM transactions must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. Accordingly, the proposed rule change supports the quality of the Exchange's trading

markets by helping to ensure that LMMs will be required to meet a higher quoting standard in order to reap the benefits of the participation entitlements. The Exchange believes this proposed change to offer participation entitlements to LMMs is offset by the LMM's continued responsibilities to provide significant liquidity to the market to the benefit of market participants. In order to receive the enhancement, the LMM's quote is at the better of the internal BBO, or the NBBO, with other Public Customer interest.

The same is true with respect to orders for 5 contracts or fewer. As proposed at Options 3, Section 10(a)(1)(C)(3), in order to be entitled to receive Orders for 5 contracts or fewer, the Lead Market Maker's quote must be at the better of the internal BBO or the NBBO with no other Public Customer interest which has a higher priority. If the Lead Market Maker is quoting at the better of the internal BBO or the NBBO with other Public Customer interest present which has a higher priority at the time of execution, a Lead Market Maker is not entitled to priority with respect to Orders of 5 contracts or fewer, however the Lead Market Maker is eligible to receive such contracts pursuant to Options 3, Section 10(a)(1)(C)(4) or (5) which describe the treatment of Market Makers and all other remaining interest after Public Customer and Lead Market Maker allocations. Finally, NOM operates in an intensely competitive environment and seeks to offer the same services that its competitors offer and in which its customers find value. ISE, GEMX, MRX, NTX Options and Phlx offer enhancements to their Lead Market Makers and they all also offer identical allocations for orders for 5 contracts or fewer.

### **Options 3, Section 15**

#### **Order Price Protection**

The Exchange's proposal to amend its Order Price Protection or "OPP" in Options 3, Section 15(a)(1) to align certain features with the OPP functionality currently offered by NTX

Options, is consistent with the Act. Amending Options 3, Section 15(a)(1) to remove the current exclusion of ISOs and order entered through QUO is consistent with the Act. With the proposed amendment to the ISO order type in Options 3, Section 7(b)(3), OPP will apply to ISOs. Further, with the amendment to QUO, OPP will apply to orders entered through renamed OTTO.

Therefore, there is no need for the QUO qualifications in the OPP rule.

### **Market Wide Risk Protection**

The Exchange believes that the proposed rule change to adopt MWRP would assist with the maintenance of a fair and orderly market by establishing new activity-based risk protections for orders. The proposed MWRP is similar to risk management functionality provided in ISE, GEMX and MRX Options 3, Section 15(a)(1)(C). Similar to ISE, GEMX and MRX, the Exchange believes that the proposed rule change may reduce Participant risk by allowing them to effectively manage their exposure to excessive risk. In particular, the proposed rule change would implement two new risk protections based on the rate of order entry and order execution, respectively. The Exchange believes that both of these new protections, which together encompass the proposed MWRP, would enable Participants to better manage their risk when trading options on the Exchange by limiting the Participant's risk exposure when systems or other issues result in orders being entered or executed at a rate that exceeds predefined thresholds. In today's market, the Exchange believes that robust risk management is becoming increasingly more important for all Participants. The proposed rule change would provide an additional layer of risk protection for market participants that trade on the Exchange.

In particular, the MWRP is designed to reduce risk associated with system errors or market events that may cause Participants to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Without adequate risk

management tools, such as those proposed in this filing, Participants could reduce the amount of order flow and liquidity that they provide. Such actions may undermine the quality of the markets available to customers and other market participants. Accordingly, the proposed functionality is designed to encourage Participants to submit additional order flow and liquidity to the Exchange, thereby removing impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

### **Acceptable Trade Range**

The Exchange' proposal to amend the Acceptable Trade Range or "ATR" at Options 3, Section 15(b)(1) to note that ATR commences after the Opening Process as this risk protection does not currently apply during the Opening Halt Cross is consistent with the Act because it is not necessary during the Opening Halt Cross which has boundaries established such as Valid Width Quote for determining the Opening Price. Today, the ATR risk protection is not available during the Opening Halt Cross. The proposal to add the concept of "internal BBO" into the ATR rule is consistent with the Act as the reference price considers better priced orders on NOM's order book in addition to the NBBO. Noting that the ATR is not available for All-or-None Orders is consistent with the Act as it would be difficult, from a technical standpoint, to apply this feature to those orders because their particular contingency makes it difficult to automate their handling. The proposed rule text is identical to rule text at NTX Options at Options 3, Section 15(a).

Additionally, the Exchange's proposal to account for quotes, in addition to orders in Options 3, Section 15(b)(1)(A) is consistent with the Act because quotes are also subject to a request to be returned if posted at the outer limit of the Acceptable Trade Range. The addition of

quotes clarifies the current System functionality. The proposed rule text is identical to rule text at NTX Options at Options 3, Section 15(b)(1).

### **Quotation Adjustments**

The Exchange believes that the proposed Active Quote Protection risk protection is consistent with the Act because it will enhance the risk protection tools available to Market Makers and Groups by introducing a new method of establishing and monitoring for risk parameters that will be offered as an alternative to existing Rapid Fire risk parameters, thereby supporting a Market Maker's ability to manage their risk on the Exchange, and also providing them with flexibility to use additional tools to manage risk. As noted above, while the passive (Rapid Fire) and active (Active QP) risk counter functionality will be mutually exclusive on each badge, Market Makers will still be able to use both to cover their activity on the Exchange by getting multiple badges and setting each risk counter by badge. The Exchange believes that offering more risk management tools to Market Makers would mitigate their exposure to excessive risk. The Exchange further believes that having the new Active Quote Protection functionality leverage the existing Multi-Trigger functionality will similarly support a Market Maker's ability to manage their risk on the Exchange by including Active Quote Protection purge events to the Multi-Trigger counter. As noted above, the risk to Market Makers is not limited to a single series in an option or even multiple series in an option as Market Makers that quote in multiple series of multiple options have significant exposure, requiring them to offset or hedge their overall positions. Market Makers are required to continuously quote in assigned options, and quoting across many series in an option or multiple options creates the possibility of executions that can create large, unintended principal positions that could expose Market Makers to unnecessary risk. Today, Multi-Trigger is designed to assist Market Makers or a Group in

managing their market risk by tracking the number of Purge Events relative to the market-wide parameter set by the Market Maker or the Group. The Exchange therefore believes that tracking the number of Active Quote Protection purge events for a Market Maker against its Multi-Trigger Threshold would be similarly useful for managing market risk so that they can provide deep and liquid markets to the benefit of all investors. Ultimately, the Exchange believes that providing Market Makers with additional tools in the manner described above to manage their risk parameters serves to perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest because Market Makers will be better able to manage risks with these tools.

The Exchange further represents that its proposal will continue to operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, any marketable interest that is executable against a Market Maker's quotes that are received<sup>171</sup> by the Exchange prior to the time this functionality is triggered will be automatically executed at the price up to the Market Maker's size, regardless of whether such execution results in executions in excess of the Market Maker's pre-set Contract Limit. As discussed above, this is also in line with how current Rapid Fire operates today. The Exchange believes that the proposed changes in proposed sub-paragraph (D)(ii) to specify that this Rule will apply to marketable orders and quotes (currently silent on marketable orders), and to specify the time of receipt of such marketable interest that is executable against the size of the Market Maker's quote, will promote clarity in how the System currently operates for Rapid Fire and will operate for Active Quote Protection. As noted above, the proposed Active Quote Protection

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<sup>171</sup> The time of receipt for an order or quote is the time such message is processed by the Exchange's order book.

functionality is identical to existing active risk counter functionality on NTX Options at Options 3, Section 15(c)(2)(B).

### **Post-Only Quoting Protection**

The Exchange's proposal to amend the Post-Only Quoting Protection at Options 3, Section 15(c)(3) to remove references to QUO is consistent with the Act because, as amended, the QUO protocol, it will apply solely to orders and not quotes, therefore QUO does not need to be mentioned in the Post-Only Quoting Protection.

### **Options 3, Section 17**

The Exchange's proposal to amend the Kill Switch at Options 3, Section 17 to allow Participants to send a mass purge request through FIX or renamed OTTO is consistent with Act and the protection of investors and the general public because it will enable Participants to initiate the Kill Switch more seamlessly without the need to utilize a separate interface. Further, utilizing the order protocols directly, in lieu of the interface, will align the Kill Switch functionality to that of ISE, GEMX and MRX at Options 3, Section 17. When initiating a cancellation of their orders by sending a mass purge request through FIX or OTTO, Participants will be able to submit a Kill Switch request on a user level only because the purge will be specific to a FIX or OTTO user for these ports.

### **Options 3, Section 18**

The Exchange's proposal to amend the Detection of Loss of Communication at Options 3, Section 18 is consistent with the Act as the amendments simply align to changes made in this proposal to permit QUO (renamed OTTO) to permit order entry. As a result, similar to FIX, OTTO would be subject to the Detection of Loss of Communication functionality that applies to

orders. Additionally, the Exchange is defining “Session of Connectivity” for ease of reference and aligning the rule text so that it is identical to ISE, GEMX and MRX Options 3, Section 18.

### **Options 3, Section 20**

The Exchange’s proposal to add language at Options 3, Section 20(i), Nullification and Adjustment of Options Transactions including Obvious Errors, to describe the treatment of Stop and Stop-Limit Orders triggered by an erroneous trade is consistent with the Act as the new language will describe the System handling for these new orders which are triggered by their Stop Price and may have been triggered by an erroneous trade. The proposed rule text is identical to Phlx Options 3, Section 20(i).

### **Options 3, Section 22**

The Exchange’s proposal to amend Options 3, Section 22, Limitations on Order Entry, to adopt a new Supplementary Material .01 is consistent with the Act because the new text will address exposure of non-displayed reserve portion of a Reserve Order as the Exchange is adding this new order type. The proposed text is identical to ISE, GEMX and MRX Supplementary Material .02 to Options 3, Section 22.

### **Options 3, Section 23**

The Exchange’s proposal to amend Options 3, Section 23, Data Feeds and Trade Information, to remove TradeInfo and QUO DROP is consistent with the Act.

The Exchange believes that it is consistent with the Act to no longer offer TradeInfo when the Exchange migrates over the enhanced Nasdaq functionality, as there is a lack of demand from Participants.<sup>172</sup> Participants use FIX and CTI to obtain order information currently

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<sup>172</sup> The Exchange will provide prior notice of the decommission to all Participants through an Options Trader Alert.

available in TradeInfo, and to cancel orders through FIX. The Exchange further believes that the proposed decommission of TradeInfo will remove impediments to and perfect the mechanism of a free and open market and a national market system by allowing the Exchange to reallocate System capacity and resources currently used to maintain this functionality to the development and maintenance of other business initiatives and risk management products. Further, the Exchange's proposal to eliminate TradeInfo pricing from Options 7, Section 3(ii) in its entirety is reasonable, equitable, and not unfairly discriminatory because TradeInfo would no longer be available to any Participant. It is reasonable to remove all references to TradeInfo pricing from the Exchange's Pricing Schedule as the Exchange is removing this functionality from its Rulebook. Additionally, it is equitable and not unfairly discriminatory to remove the references to TradeInfo pricing from the Pricing Schedule because no Participant would be able to utilize this functionality once it is removed from the System.

The Exchange believes that it is consistent with the Act to no longer offer QUO DROP when the Exchange migrates over the enhanced Nasdaq functionality. With the amendment of QUO, the protocol would be identical to the OTTO protocol offered on ISE, GEMX, MRX, NTX Options and Phlx. Neither the Exchange nor any Nasdaq affiliate offer a DROP version for OTTO. The Exchange's proposal to remove QUO DROP is reasonable because market participants have not expressed demand for such a DROP port. Further, the Exchange's proposal to decommission QUO DROP and eliminate QUO DROP pricing from Options 7, Section 3(i) is equitable, and not unfairly discriminatory because QUO DROP would no longer be available to any NOM Participant.

### **Options 3, Section 28**

The Exchange believes that introducing the optional risk protections as described above will protect investors and the public interest, and maintain fair and orderly markets, by providing market participants with another tool to manage their order risk. In addition, providing Participants with more tools for managing risk will facilitate transactions in securities because Participants will have more confidence that risk protections are in place. As a result, the new functionality has the potential to promote just and equitable principles of trade. ISE, GEMX and MRX offer identical optional risk protections at Options 3, Section 28.

### **Options 5, Section 4**

The Exchange's proposal to amend Options 5, Section 4, Order Routing, to align NOM's routing to NTX Options at Options 5, Section 4 is consistent with the Act. The Exchange's proposal to adopt a routing strategy identical to NTX Options (except with respect to the System handling of Price Improving Orders) with respect to FIND Orders and remove SEEK Orders will provide NOM Participants the same flexibility for routing orders that is currently afforded to NTX Options Participants.<sup>173</sup>

With respect to the SRCH feature, the Exchange is adding more detail to its routing rule to provide market participants with greater transparency. The Exchange believes the added scenarios will provide more context to routing in general and for the specific routing strategies for the benefit of investors and the public interest. The Exchange continues to offer various choices to its market participants with respect to routing. A Participant may elect either (1) to not route their orders and mark those orders "DNR"; or (2) to route their orders. If a Participant elects to route their orders, then a Participant may select to mark their orders as "FIND" or

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<sup>173</sup> See NTX Options at Options 5, Section 4, Order Routing.

“SRCH” Orders, as proposed herein. A FIND Order, similar to a SEEK Order, is not eligible for routing until the next time the option series is subject to a new Opening Process. The FIND Order would route once and then post to the Order Book. A SRCH Order may route during and after an Opening Process. A SRCH Order on the Order Book may be routed to an away market if it is locked or crossed by an away market. With respect to the addition of FIND Orders, the Exchange proposes various scenarios related to FIND Orders to account for various routing scenarios, as is the case today with respect to SEEK Orders. Various scenarios are also proposed to explain System functionality in locked and crossed markets. The Exchange also accounts for scenarios both during and after the proposed Opening Process. It is consistent with the Act to account for the behavior of FIND Orders with respect to locked and crossed markets to provide clarity as to the System handling. The Exchange will not trade-through an away market’s price. This behavior is consistent with the protection of investors and the general public because it affords Participants the ability to obtain the best price offered among the various options markets.

#### DNR Orders

The Exchange’s proposal to amend Options 5, Section 4(a)(iii)(A), related to DNR Orders, to conform the text within NOM to that of NTX Options is consistent with the Act and should bring greater clarity to the rule text. The Exchange’s proposed amendments to Options 5, Section 4(a)(iii)(A), relating to DNR Orders, are identical to NTX Options’ Rule. The proposed rule text does not result in a System change, rather the text is intended to bring greater clarity to the current System operation.

The Exchange’s proposal to amend Options 5, Section 4(a)(iii)(A), related to DNR Orders, to conform the rule text to NTX Options at Options 5, Section 4(a)(iii)(A) is consistent with the

Act. The Exchange’s proposal to amend the second sentence of Options 5, Section 4(a)(iii)(A) to change the words “away from that ABBO” to “inferior to the best bid/offer” is a non-substantive amendment intended to conform the rule text to that of NTX Options. Further, adding rule text at Options 5, Section 4(a)(iii)(A) regarding a DNR Order regarding order exposure would make other Participants aware that this order was available on the Order Book. This is identical to rule text at NTX Options at Options 5, Section 4(a).<sup>174</sup> Amending the last sentence of current Options 5, Section 4(a)(iii)(A) to provide, “Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price, and expose such orders at the new ABBO or its original limit price. Once booked at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price” is intended to make clear the current System operation and is consistent with the Act because the change does not result in a System change, rather the new sentence is intended to bring greater clarity to the current System operation. The proposed new rule text is identical to NTX Options at Options 5, Section 4(a).

#### SRCH Orders

The Exchange’s proposal to add more scenarios for SRCH Order functionality on NOM is consistent with the Act. The Exchange’s proposal to include all potential scenarios will bring greater transparency to the Exchange’s Rules. Within this rule, the Exchange accounts for

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<sup>174</sup> The Exchange also proposes to add a “(1)” to this paragraph to align with the “(2)” in current Options 5, Section 4(a).

various scenarios to explain System functionality in locked and crossed markets, particularly during a Route Timer. The Exchange also accounts for scenarios both during and after the proposed Opening Process. It is consistent with the Act to account for the behavior of SRCH Orders with respect to locked and crossed markets to clarify the System handling. The Exchange will not trade-through an away market's price. This behavior is consistent with the protection of investors and the general public because it affords Participants the ability to obtain the best price offered among the various options markets.

### **Options 6, Section 1**

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, to align NOM's process to that of ISE, GEMX and MRX Options 6, Section 1(c) is consistent with the Act because with the proposed change, the System will process that transaction using the Participant's default OCC clearing number. Therefore, a Participant may amend the OCC clearing number to any valid OCC clearing number at the time of the trade, or through post trade allocation. Today, NOM Participants may not amend the mnemonic, rather they may only utilize a permissible mnemonic to Give-Up a transaction. This amendment provides NOM Participants with greater flexibility similar to ISE, GEMX and MRX. The proposed rule will be identical to ISE, GEMX and MRX.

#### **B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform. The basis for the majority of the proposed rule changes is conformity

with the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act.

### **Lead Market Makers**

The Exchange's proposal to permit NOM Market Makers to act as Lead Market Makers, or "LMMs," in one or more options classes does not impose an undue burden on intra-market competition because LMMs will be subject to enhanced quoting obligations which are similar to those at other options exchanges.<sup>175</sup> These obligations would apply uniformly to all LMMs. Further, the Exchange believes that because this proposal establishes quoting compliance standards that are already in place on other options exchanges, the proposal will not diminish, and in fact may increase, market making activity on the Exchange and thereby enhance intermarket competition. Moreover, the proposed rule change will not impose any burden on intra-market competition because it will affect all LMMs the same. LMMs will be subject to heightened quoting obligations as compared to other NTX Options Market Makers. All market makers that desire to apply to become LMMs will be subject to the same review and scrutiny with respect to their LMM application and the ultimate assignment of options series. The Exchange does not believe the proposed rule change will cause any unnecessary burden on intra-market competition because it provides all market participants that qualify as LMMs and meet the required criteria and fulfill the required obligations the opportunity to benefit from participation entitlements. The Exchange believes that the proposed rule change will promote

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<sup>175</sup> See proposed Options 2, Section 5(j). An LMM must enter two-sided quotations. An LMM that enters a bid (offer) in a series of an option in which he is registered on NOM must enter an offer (bid), except in an assigned options series listed intra-day on NOM. These quotations must meet the legal quote width requirements specified in Options 2, Section 4 subsection (f)(4). An Options Participant will be required to meet each market making obligation separately. Quotes submitted through the Specialized Quote Feed interface, utilizing badges and options series assigned to a Lead Market Maker, will be counted toward the requirement to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as NOM may announce.

competition among LMMs who desire to be assigned in options series and in turn promote trading activity on the Exchange to the benefit of the Exchange, its members, and market participants.

The Exchange does not believe the proposed change will cause any unnecessary burden on inter-market competition because the proposed requirements to become an LMM and the participation entitlements are identical to those on NTX Options at Options 2, Section 4 and Options 3, Section 10. Additionally, the quoting obligations are identical to NTX Options at Options 2, Section 5. In addition, the Exchange believes that the proposed rule change will in fact promote competition. The Exchange believes allowing LMMs to receive participation entitlements will promote trading activity on the Exchange because it will provide incentives to LMMs to quote in series which they are not obligated to do so, to the benefit of the Exchange, its Participants, and market participants.

#### **Options 2, Section 6**

The Exchange believes that this proposal to permit Market Makers to enter all eligible order types, except Reserve Orders as noted in proposed Options 2, Section 6, does not impose an undue burden on intra-market competition because it treats all Market Makers uniformly with respect to permissible order types. Market Makers, unlike other market participants, are required to abide by certain quoting requirements in the options classes in which they are appointed pursuant to Options 2, Section 5, in order to maintain the status of a Market Maker.

The Exchange believes that this proposal to permit Market Makers to enter all eligible order types, except Reserve Orders as noted in proposed Options 2, Section 6, does not impose an undue burden on inter-market competition because ISE, GEMX and MRX have an identical restriction at Options 2, Section 6(b).

### **Options 3, Section 3**

The Exchange's proposal to amend Options 3, Section 3(c) to no longer permit quotes to be submitted to the Exchange in sub-pennies does not impose an undue burden on intra-market competition because no Participant will be able to submit quotes in sub-pennies.

The Exchange's proposal to amend Options 3, Section 3(c) to no longer permit quotes to be submitted to the Exchange in sub-pennies does not impose an undue burden on inter-market competition because it will standardize NOM to the behavior of all other Nasdaq affiliated exchanges that do not permit quotes to be permitted in sub-pennies.

### **Options 3, Section 7**

The Exchange's proposal to amend NOM's existing order types so that they are identical to order types available on ISE, GEMX and MRX Options 3, Section 7, except for the Add Liquidity Order, which is not being substantively amended, does not impose an undue burden on intra-market competition because all market participants would be able to utilize all of the order types, except Market Makers with respect to Reserve Orders. Restricting Market Makers (and Lead Market Makers) from entering Reserve Orders does not impose an intra-market burden on competition because Market Maker (and Lead Market Maker) liquidity should be displayed, and Reserve Orders have non-displayed portions of liquidity.

The Exchange's proposal to amend NOM's existing order types does not impose an undue burden on inter-market burden competition because other exchanges such as ISE, GEMX, MRX and Phlx offer these order types.<sup>176</sup>

The Exchange's proposal to amend the QUO protocol (renamed OTTO) to no longer treat orders as quotes and instead permit the entry of two-sided orders subject to order entry

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<sup>176</sup> See ISE, GEMX and MRX Options 3, Section 7.

protections does not impose an undue burden on intra-market competition because today only Market Makers may utilize QUO and as amended, all NOM Participants may utilize the protocol. Market Makers will continue to be offered SQF for quote entry.

The Exchange's proposal to amend the QUO protocol (renamed OTTO) to no longer treat orders as quotes and instead permit the entry of two-sided orders subject to order entry protections does not impose an undue burden on inter-market competition because the QUO protocol, as amended, would be identical to the OTTO protocol on ISE, GEMX, MRX, NTX Options and Phlx.

### **Options 3, Section 8**

The Exchange's proposed Options 3, Section 8, Opening Process, does not impose an undue burden on intra-market competition as it will apply uniformly to all NOM Participants.

The Exchange's proposal to amend and alphabetize the current definitions within Options 3, Section 8(a) does not impose a burden on competition. The definitions will assist market participants in understanding the meaning of terms used throughout the proposed Rule.

Amending the definition of "market for the underlying security" within proposed Options 3, Section 8(a)(3) does not impose a burden on competition. The Exchange's proposal offers alternative paths to open NOM in the event that the primary market or even a designated alternate primary market experiences an issue. The Exchange's proposal is intended to create additional certainty in the event that an issue with the primary market arises. With this proposal, the Exchange would have other equity markets to look to with respect to underlying prices on which to open NOM. This proposal also does not impact the ability of other options markets to open.

Defining what qualifies as eligible interest does not impose a burden on competition because Participants will be provided with certainty, when submitting interest, as to which type of interest will be considered in the Opening Process. Unlike the regular session, where orders route if they cannot execute on NOM, the Opening Process is a price discovery process which considers interest, both on NOM and away markets, to determine the optimal bid and offer with which to open the market. The Opening Process seeks the price point at which the most number of contracts may be executed while protecting away market interest.

With respect to trade allocation, proposed Options 3, Section 8(b)(2) states that the System will allocate pursuant to Options 3, Section 10. The Exchange believes that this allocation does not impose a burden on competition because it mirrors the current allocation process on NOM in other trading sessions.

Permitting the Opening Process for an option series to be conducted on or after 9:30 AM, when the System has received an opening trade or quote on the market for the underlying security in the case of equity options or in the case of index options<sup>177</sup> does not impose a burden on competition because this requirement will tie the option's Opening Process to the receipt of liquidity. The Exchange's proposed rule considers the liquidity present on its market before initiating other processes to obtain additional pricing information.

Proposed Options 3, Section 8(d)(3) provides that the Opening Process will stop and an option series will not open if the ABBO becomes crossed. This proposal does not impose a burden on competition. Once this condition no longer exists, the Opening Process in the affected option series will start again pursuant to paragraphs (f) - (k). NOM will not consider if a Valid Width Quote(s) is no longer present.

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<sup>177</sup> See proposed NOM Options 3, Section 8(d)(1).

Proposed Options 3, Section 8(e) provides if there is a trading halt or pause in the underlying security, the Opening Process will start again irrespective of the specific times listed in paragraph (d). The Exchange's proposal to restart in the event of a trading halt does not impose a burden on competition because the proposed rule ensures that there is stability in the marketplace in order to assist the Exchange in determining the Opening Price.

The Exchange's proposal to validate the Opening Price against away markets or by attracting additional interest to address the specific condition does not impose a burden on competition. It should avoid opening executions in very wide or unusual markets where an opening execution price cannot be validated.

The proposed rule continues to consider the maximum number of contracts that can be executed, which results in a price that is logical and reasonable in light of away markets and other interest present in the System. The Exchange's method seeks to validate the Opening Price and avoid opening at aberrant prices does not impose a burden on competition. The Opening Price would be applied to all eligible interest.

The Exchange's proposed Options 3, Section 8, Opening Process, does not impose an inter-market burden on competition as NTX Options has the identical Opening Process. Other exchanges could similarly adopt a similar process.

### **Options 3, Section 9**

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, so that it is identical to the treatment of Stop Orders at ISE, GEMX and MRX Options 3, Section 9(d)(3) and addresses a trading halt resumption at Options 3, Section 9(f) in light of NTX Options' proposed new Opening Process at Options 3, Section 8 does not impose an undue burden on intra-market competition because all market participants would be subject to the Trading Halts rule.

The Exchange's proposal to amend Options 3, Section 9, Trading Halts, so that it is identical to the treatment of Stop Orders at ISE, GEMX and MRX Options 3, Section 9(d)(3) and addresses a trading halt resumption at Options 3, Section 9(f) in light of NTX Options' proposed new Opening Process at Options 3, Section 8 does not impose an undue burden on inter-market competition because other exchanges may adopt similar functionality.

### **Options 3, Section 10**

The Exchange's proposal to amend Options 3, Section 10, Order Book Allocation, to adopt a Size Pro-Rate definition that addresses Reserve Orders does not impose an undue burden on intra-market competition because the Exchange will uniformly apply the allocation methodology to all Participant executions.

The Exchange's proposal to amend Options 3, Section 10, Order Book Allocation, to adopt a Size Pro-Rate definition that addresses Reserve Orders does not impose an undue burden on inter-market competition because NTX Options has the same Size Pro-Rata definition at NTX Options at Options 3, Section 10(a)(1)(B).

### **Options 3, Section 15**

All of the proposed changes related to the risk protections (OPP, MWRP, Acceptable Trade Range, Quotation Adjustments, Active Quote Protection, and Post-Only Quoting Protection) do not impose an undue burden on intra-market competition as they are all aimed at mitigating market participant risk associated with trading on the Exchange. The proposed changes are designed to benefit market participants in that they will provide a more consistent technology offering for market participants on Nasdaq affiliated exchanges. Also, some of the proposed risk controls (e.g., Delta and Vega Thresholds and Post Only Quoting Protection) are completely voluntary. The Post-Only Quoting Protection 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 Exchange does not believe that the proposed Active Quote Protection functionality will impose any undue burden on intra-market competition as it is aimed at mitigating exposure to excessive risk when trading on the Exchange. While the Exchange will offer the proposed functionality to Market Makers only, the proposed risk protection is intended to provide Market Makers with an additional tool to manage their risk parameters in a manner they deem appropriate. As such, the Exchange believes that the proposed functionality may facilitate Market Makers' provision of liquidity on the Exchange, thereby benefitting all market participants through additional execution opportunities at potentially improved prices. Offering Market Makers the ability to configure their quotes as Post-Only will allow all market participants on NOM to add liquidity only if desired. Further, the proposed risk protection allows 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 the order book upon entry, thereby protecting investors and the general public as Market Makers transact a large number of orders on the Exchange and bring liquidity to the marketplace. Market Makers are required to add liquidity on the Exchange and, in turn, are rewarded with lower pricing and enhanced allocations. Specifically, the risk protection would permit Market Makers to add liquidity only and avoid removing interest on the order book thereby maximizing the benefit of their quoting to bring liquidity to NOM by allowing Market Makers to provide as much liquidity as possible. Unlike other market participants, Market Makers have certain obligations on the market. Market Makers are required to provide continuous two-sided quotes on a daily basis<sup>178</sup> and are subject to various obligations

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<sup>178</sup> See NOM Options 2, Section 5.

associated with providing liquidity on the market.<sup>179</sup> 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.

As it relates to inter-market competition, these risk protections are identical to those on NTX Options, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. As noted above, the proposed changes to the risk protections will provide more consistent technology offerings across the Nasdaq affiliated exchanges, and for this reason, the Exchange does not believe its proposal will impose an undue burden on intermarket competition. Market participants on other exchanges may become participants on the Exchange if they determine the proposed rule change makes NOM a more attractive or favorable venue.

### **Options 3, Section 17**

The Exchange's proposal to amend the Kill Switch at Options 3, Section 17 does not impose an undue burden on intra-market competition as the Kill Switch functionality will be available to all Participants on NOM and will be applied in a uniform manner.

The Exchange's proposal to amend the Kill Switch at Options 3, Section 17 does not impose an undue burden on inter-market competition as the Kill Switch functionality is identical to that of ISE, GEMX and MRX at Options 3, Section 17.

### **Options 3, Section 18**

The Exchange's proposal to amend the Detection of Loss of Communication at Options 3, Section 18 does not impose an undue burden on intra-market competition as the Detection of

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<sup>179</sup> See NOM Options 2, Section 4.

Loss of Communication functionality will be available to all Participants on NOM and will be applied in a uniform manner.

The Exchange's proposal to amend the Detection of Loss of Communication at Options 3, Section 18 does not impose an undue burden on inter-market competition as the Detection of Loss of Communication functionality is identical to that of ISE, GEMX and MRX at Options 3, Section 17.

### **Options 3, Section 20**

The Exchange's proposal to add language at Options 3, Section 20(i), Nullification and Adjustment of Options Transactions including Obvious Errors, to describe the treatment of Stop and Stop-Limit Orders triggered by an erroneous trade does not impose an undue burden on intra-market competition as rule will be applied in a uniform manner.

The Exchange's proposal to add language at Options 3, Section 20(i), Nullification and Adjustment of Options Transactions including Obvious Errors, to describe the treatment of Stop and Stop-Limit Orders triggered by an erroneous trade does not impose an undue burden on inter-market competition because all other options exchanges that offer Stop and Stop-Limit Orders have this rule.

### **Options 3, Section 23**

As it relates to the elimination of fees for TradeInfo and QUO DROP from Options 7, Section 23, the Exchange believes that its proposal does not impose an undue burden intra-market on competition because these functionalities would no longer be available to any Participant. Further, with respect to the elimination of TradeInfo, Participants may receive similar information through CTI and may cancel orders through FIX. Both CTI and FIX are available to all Participants.

As it relates to the elimination of fees for TradeInfo and QUO DROP from Options 7, Section 23, the Exchange believes that its proposal does not impose an undue burden on inter-market competition because other exchanges may adopt this functionality on their markets.

#### **Options 3, Section 28**

The Exchange believes that introducing the optional quantity and notional value risk protections does not impose an undue burden on intra-market competition as it will provide market participants with another tool to manage their order risk.

The Exchange believes that introducing the optional quantity and notional value risk protections does not impose an undue burden on inter-market competition as the identical functionality exists on ISE, GEMX and MRX at Options 3, Section 28.

#### **Options 5, Section 4**

The Exchange believes that adding greater detail to its rules does not impose an undue burden on intra-market competition, rather it provides greater transparency as to the potential outcomes when utilizing different routing strategies with respect to SRCH Orders. The substitution of FIND Orders for SEEK Orders allows Participants to continue to have choices as to the manner in which they route orders, if they elect to route. Participants may elect not to route their orders.

The Exchange's proposal to adopt a routing strategy identical to NTX Options<sup>180</sup> with respect to FIND Orders and remove SEEK Orders does not impose an undue burden on inter-market competition. This proposal will provide NOM Participants the same choices with respect to routing that is currently afforded to NTX Options Participants. Also, the proposed routing rules would apply to all Participants including routing during an Opening Process.

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<sup>180</sup> See NTX Options at Options 5, Section 4, Order Routing.

## **Options 6, Section 1**

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not impose an undue burden on intra-market competition, rather it will permit all NOM Participants to amend the OCC mnemonic to any valid OCC number at the time of the trade, or through post trade allocation. The proposal will create a uniform process for Give-Up for all Participants and harmonize NOM's Options 6, Section 1 rule to ISE, GEMX and MRX Options 6, Section 1.

The Exchange's proposal to amend Options 6, Section 1, Authorization to Give Up, does not impose an undue burden on inter-market competition because other markets today have the same Give-Up process.<sup>181</sup>

### 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<sup>182</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>183</sup>

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<sup>181</sup> See ISE, GEMX and MRX Options 6, Section 1(c).

<sup>182</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>183</sup> 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.

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](mailto:rule-comments@sec.gov). Please include file number SR-NASDAQ-2026-039 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-NASDAQ-2026-039. 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-NASDAQ-2026-039 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.<sup>184</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>184</sup> 17 CFR 200.30-3(a)(12).