SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104733; File No. SR-Phlx-2026-05]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Electronic FLEX Rules

January 28, 2026.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on January 27, 2026, Nasdaq PHLX LLC ("Phlx" 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 introduce enhancements to electronic FLEX trading by (i) allowing prices to be expressed as a percentage, (ii) adopting a Delta-Adjusted at Close order instruction, and (iii) adopting rules to permit the legs of a complex FLEX Order to include a combination of FLEX Option series and non-FLEX Option series ("FLEX v. Non-FLEX Order").

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

---

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

2 17 CFR 240.19b-4.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to introduce FLEX enhancements by (i) allowing prices to be expressed as a percentage, (ii) adopting a Delta-Adjusted at Close ("DAC") order instruction, and (iii) adopting rules to permit the legs of a complex FLEX Order to include a combination of FLEX Option series and non-FLEX Option series ("FLEX v. Non-FLEX Order"). As discussed in detail below, the proposed changes would align the Exchange's FLEX rules with the FLEX rules of Cboe Exchange, Inc. ("Cboe"), and therefore raise no novel issues for the Commission. Each change will be described below.

FLEX Percentages

The Exchange proposes to allow prices to be expressed as percentage of the closing value of the underlying equity security or index, which would align with the Cboe's FLEX rules. Prices in FLEX trading are allowed to be expressed as a fixed dollar and decimal amount. For example, Options 3A, Section 3(c)(6) stipulates that the exercise price for a FLEX Option[3] may

[3] The term "FLEX Option" means a flexible exchange option. A FLEX Option on an equity security may be referred to as a "FLEX Equity Option," and a FLEX Option on an index may be referred to as a "FLEX Index Option." See Options 3A, Section 1(b)(1).

be in increments no smaller than $0.01. In addition, Options 3A, Section 4(a) stipulates that bids and offers for FLEX Options must be expressed in U.S. dollars and decimals in the applicable minimum increment as set forth in Options 3A, Section 5(a). Options 3A, Section 5(a), in turn, provides that the Exchange determines the minimum increment for bids and offers on FLEX Options on a class-by-class basis, which may not be smaller than $0.01 for the options leg of a FLEX Option.

The Exchange now proposes to allow prices in FLEX trading to be expressed using a percentage-based methodology that will be materially identical to Cboe. The proposed percentage-based methodology would be an alternative to the fixed dollar and decimal amount that was adopted by the Exchange for FLEX trading. As proposed, the Exchange would allow prices for FLEX trading (e.g., exercise price, bids/offers, and minimum increments) to be expressed as a percentage of the underlying security or index, and limit the percentage increment to be no smaller than 0.01%. Accordingly, the Exchange proposes to update its FLEX rule provisions throughout Options 3A to reflect this enhancement. The Exchange believes that the proposed enhancement would provide greater flexibility in terms of describing an option contract tailored to the needs of the investor.

Specifically, the exercise price provisions in Options 3A, Section 3(c)(6) would be amended to provide that the exercise price of a FLEX Option may be in increments no smaller than (i) $0.01, if expressed as a fixed price in terms of dollars and decimals or a specific index value, as applicable, or (ii) 0.01%, if expressed as a percentage of the closing value of the underlying equity security or index, as applicable, on the trade date (the System rounds the actual exercise price to the nearest fixed price minimum increment for bids and offers in the class (as

set forth in Options 3A, Section 5(a)).[4] The proposed changes in Section 3(c)(6) differentiates between the expression of bids and offers of FLEX Options as a fixed price or as a percentage of the closing value of the underlying. As described above, the Exchange is also proposing to add a parenthetical regarding the System rounding the actual exercise price to the nearest fixed price minimum increment for bids and offers in the class (as set forth in Options 3A, Section 5(a)), which would only be applied to exercise prices expressed as a percentage. The dollar value of an exercise price expressed as a percentage would be rounded to the nearest minimum dollar value increment, which dollar value would represent the ultimate, "actual" exercise price. For example, suppose a member organization enters a percentage bid of 0.27 for a FLEX Equity Option, which is the price at which the order for that option ultimately trades, and the underlying security has a closing value of 24.52 on the trade date. Following the close on the trade date, the System calculates the transaction price to be 6.6204 (0.27 x 24.52). Assuming the minimum increment for bids and offers in a FLEX Option class is $0.01, the System rounds 6.6204 to the nearest penny, which would be a transaction price of $6.62. The dollar value of the transaction price of a FLEX Option for which the bids and offers were expressed as a percentage (the "final") determined after the closing value is available would be rounded to the nearest fixed price minimum increment for the class (e.g., the nearest $0.01, if that is the minimum determined for the class).[5]

The Exchange also proposes to amend Options 3A, Section 4(a) ("Units of Trading") as follows:[6]

---

4 See Cboe Rule 4.21(b)(6)(A) for materially identical provisions.

5 With respect to this example and rounding, if the price was $6.625, the System would round to $6.63.

6 See Cboe Rule 5.3(e)(3) for substantially similar provisions, except the Exchange will not incorporate Cboe's language relating to FLEX Index Options with an index multiplier of one (i.e., micro FLEX Index Options) because the Exchange does not offer this capability today.

(a) Bids and offers for FLEX Options must be expressed in (A) U.S. dollars and decimals, if the exercise price for the FLEX Option series is a fixed price; or (B) a percentage per unit of the underlying security or index, as applicable, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date, each in the applicable minimum increment as set forth in Section 5(a) below.

(1) If the exercise price of a FLEX Option series is a fixed price, a bid of "0.50" represents a bid of (A) $50 (0.50 times 100 shares) for a FLEX Equity Option; and (B) $50 (0.50 times an index multiplier of 100) for a FLEX Index Option with a multiplier of 100.

(2) If the exercise price of a FLEX Option series is a percentage of the closing value of the underlying equity security or index, a bid of "0.50" represents a bid of (A) 50% (0.50 times 100 shares) of the closing value of the underlying equity security on the trade date if a FLEX Equity Option; and (B) 50% (0.50 times an index multiplier of 100) of the closing value of the underlying index on the trade date if a FLEX Index Option with a multiplier of 100.

(3) Following application of the designated percentage to the closing value of the underlying security or index, the System rounds the final transaction prices to the nearest minimum fixed price increment for the class as set forth in Section 5(a) below.

Like Cboe, the Exchange is making clear with the proposed changes in Section 4(a) that bids and offers must be in the same format as the exercise price, as it would be difficult to apply a dollar price for a FLEX Option series with a percentage-based exercise price. Additionally, the proposed changes in Section 4(a) described above add examples describing the expression of bids and offers of FLEX Options as a fixed price or as a percentage of the closing value of the underlying. The proposed changes also specify how the System would round the final transaction price once the designated percentage value is applied. The changes proposed in Options 3A, Section 4(a) are intended to provide a clear, transparent description of how the Exchange would apply the fixed price and percentage value methodology for FLEX Options, and how the Exchange would round the final transaction prices once the designated percentage is applied.

Further, the Exchange proposes to amend Options 3A, Section 5(a) ("Minimum Trading Increments") to reflect the alternative percentage methodology as follows:[7]

> The Exchange determines the minimum increment for bids and offers on FLEX Options on a class-by-class basis, which may not be smaller than (A) $0.01, if the exercise price for the FLEX Option series is a fixed price, or (B) 0.01%, if the exercise price for the FLEX Option series is a percentage of the closing value of the underlying equity security or index on the trade date. Following application of the designated percentage to the closing value of the underlying security or index, the System rounds the final transaction prices to the nearest fixed price minimum increment for the class as set forth in this Section 5(a), in each case for the options leg of a FLEX Option.

The proposed changes in Options 3A, Section 5(a) are similar to proposed changes described above for Options 3A, Sections 3(c)(6) and 4(a), and delineate between the expression of minimum increments for bids and offers on FLEX Options as a fixed price or as a percentage of the closing value of the underlying. The proposed changes also similarly specify how the System would round the final transaction price once the designated percentage value is applied.

The Exchange also proposes to make corresponding changes to its FLEX auction rules to reflect that the prices of FLEX Orders[8] and FLEX auction responses submitted into any of the FLEX auctions must be expressed either as a fixed dollar price or a percentage, and that such price must be in the same format (i.e., fixed dollar price or percentage) as the exercise price of the FLEX Option series.

Specifically for electronic FLEX Auctions in Options 3A, Section 11(b), the Exchange proposes in subparagraph (b)(1)(G)(iii) that the minimum price increment for a FLEX Order must in the same format (i.e., price or percentage) as the exercise price of the FLEX Option

---

7 See Cboe Rule 5.4(c)(4) for materially identical provisions.

8 The term "FLEX Order" means an order submitted in a FLEX Option pursuant to Options 3A. See Options 3A, Section 1(b)(2).

series.[9] The Exchange proposes to add a similar requirement in subparagraph (b)(2)(D)(vi) with respect to the minimum price increments for FLEX responses by stipulating that the minimum price increment for FLEX responses is the same as the one the Exchange determines for a class pursuant to subparagraph (b)(1)(G) of this Rule, and must be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[10] The System rejects a FLEX response that is not in the applicable minimum increment or format.[11] The Exchange also proposes to amend the allocation provisions for electronic FLEX Auctions in subparagraph (b)(3)(A) to provide that for purposes of ranking FLEX responses when determining how to allocate a FLEX Order against those responses, the term "price" refers to (i) the dollar and decimal amount of the response bid or offer or (ii) the percentage value of the response bid or offer, as applicable.[12] The Exchange also proposes to amend Options 3A, Section 12(e)(1)(B)(ii) related to FLEX PIXL to add rule text that states, "Member organizations may elect for the Initiating Order to have less than their guaranteed allocation as described in subparagraph (e)(4)

---

9 Cboe Rules 5.73(a)(5) (governing minimum price increments for Cboe's FLEX Automated Improvement Mechanism ("FLEX AIM")) and 5.74(a)(5) (governing minimum price increments for Cboe's FLEX Solicited Auction Mechanism ("FLEX SAM")) similarly require that the minimum price increment be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series. The Exchange notes that Cboe's electronic FLEX Auction in Cboe Rule 5.72(c), which is the analogue to this particular electronic FLEX Auction in Options 3A, Section 11(b), is silent on minimum price increments. However, the Exchange will add the minimum price increment requirement described above in the rules for its electronic FLEX Auction for transparency and clarity.

10 While Cboe's electronic FLEX Auction response requirements in Cboe Rule 5.72(c)(2)(D) are silent on minimum increments, the auction response requirements for Cboe's FLEX AIM and FLEX SAM in Cboe Rules 5.73(c)(5)(A) and 5.74(c)(5)(A), respectively, similarly require that the minimum price increment for FLEX AIM and FLEX SAM responses must be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series. The Exchange believes it will be helpful to add a similar requirement in the rules for the Exchange's electronic FLEX Auction responses for transparency and clarity.

11 See id.

12 See Cboe Rule 5.72(c)(3)(A) for materially identical language.

below."[13] The Exchange proposes to add this sentence as a guidepost and reminder that a member organization may elect less than their guaranteed allocation.

The Exchange proposes similar changes for FLEX PIXL auctions in Options 3A, Section 12. Specifically, the Exchange proposes in subparagraph (a)(5)(C) that the price of the Agency Order[14] and the Initiating Order[15] must be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[16] In paragraph (b), the Exchange proposes to provide that the Initiating Order must stop the entire Agency Order at a specified price in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[17] In subparagraph (c)(5)(A), the Exchange proposes that the minimum price increment for FLEX PIXL responses shall be the same as the Exchange determines for a class pursuant to subparagraph (a)(5) of this Rule, and must be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[18] The System rejects a FLEX PIXL response that is not in the applicable minimum increment or format.[19] Lastly, in paragraph (e), the Exchange

---

13 Options 3A, Section 12(e)(4) is related to guaranteed allocation. If the Initiating Member selects a single-price submission, it may elect for the Initiating Order to have less than their guaranteed allocation (50% if there is a response(s) from one other member organization or 40% if there are responses from two or more member organizations) to trade against the Agency Order. The Initiating Member may select a lesser percentage than their guaranteed allocation. If the Initiating Member elects 0%, then notwithstanding subparagraphs (e)(1) and (2), the System only executes the Initiating Order against any remaining Agency Order contracts at the stop price after the Agency Order is allocated to all FLEX PIXL responses at all prices equal to or better than the stop price. Guaranteed allocation information is not available to other market participants and may not be modified after it is submitted.

14 Pursuant to Options 3A, Section 12, a Member (the "Initiating Member") may electronically submit for execution an order (which may be a simple or complex order) it represents as agent ("Agency Order") against principal interest or a solicited order(s) (except for an order for the account of any FLEX Market Maker with an appointment in the applicable FLEX Option class on the Exchange) (an "Initiating Order"), provided it submits the Agency Order for electronic execution into a FLEX PIXL auction pursuant to this Rule.

15 See id.

16 See Cboe Rule 5.73(a)(5) for materially identical language.

17 See Cboe Rule 5.73(b) for materially identical language.

18 See Cboe Rule 5.73(c)(5)(A) for materially identical language.

19 See id.

proposes that for purposes of ranking the Initiating Order and FLEX PIXL responses when determining how to allocate the Agency Order against the Initiating Order and those responses, the term "price" refers to (1) the dollar and decimal amount of the order or response bid or offer or (2) the percentage value of the order or response bid or offer, as applicable.[20]

Likewise for FLEX SOM auctions in Options 3A, Section 13, the Exchange proposes in subparagraph (a)(5)(C) that the price of the Agency Order[21] and the Solicited Order[22] must be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[23] In paragraph (b), the Exchange proposes that the Solicited Order must stop the entire Agency Order at a specified price in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[24] In subparagraph (c)(5)(A), the Exchange proposes that the minimum price increment for FLEX SOM responses shall be the same increment as the Exchange determines for a class pursuant to subparagraph (a)(5) of this Rule, and must be in the same format (i.e., price or percentage) as the exercise price of the FLEX Option series.[25] The System rejects a FLEX SOM response that is not in the applicable minimum increment or format.[26] Lastly, the Exchange proposes in paragraph (e) that for purposes of ranking the Solicited Order and FLEX SOM responses when determining how to allocate the Agency Order against the Solicited Order and those responses, the term "price" refers to (1) the dollar and decimal amount

---

20 See Cboe Rule 5.73(e) for materially identical language.

21 Pursuant to Options 3A, Section 13, a Member (the "Initiating Member") may electronically submit for execution an order (which may be a simple or complex order) it represents as agent ("Agency Order") against a solicited order ("Solicited Order") if it submits the Agency Order for electronic execution into a FLEX SOM Auction pursuant to this Rule.

22 See id.

23 See Cboe Rule 5.74(a)(5) for materially identical language.

24 See Cboe Rule 5.74(b) for materially identical language.

25 See Cboe Rule 5.74(c)(5)(A) for materially identical language.

26 See id.

of the order or response bid or offer or (2) the percentage value of the order or response bid or offer, as applicable.[27]

FLEX DAC

The Exchange proposes to adopt a DAC order instruction that an Exchange member organization ("Member") may apply to a FLEX Order when entering it into the System[28] for execution in a FLEX auction. The proposed DAC order instruction is substantially similar to the DAC order instruction offered by Cboe.[29]

In particular, if a DAC order executes during the trading day, upon receipt of the official closing price or value for the underlying from the primary listing exchange or index provider, respectively, the System will adjust the original execution price of a DAC order based on a delta value applied to the change in the underlying reference price between the time of execution and the market close. As proposed, DAC orders will allow Members the opportunity to incorporate into the pricing of their FLEX Options the closing price or the value of the underlying on the transaction date based on how much the price or value changed during the trading day.

Near the market close, the Exchange has observed that significant numbers of market participants interact in the equity markets, which may substantially impact the price or value, as applicable, of the underlying at the market close. For example, shares of exchange-traded funds ("ETFs") that track indexes, which are increasingly popular, often trade at or near the market

---

27 See Cboe Rule 5.74(e) for materially identical language.

28 The term "System" means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions. See Options 1, Section 1(a)(50).

29 See Cboe Rules 5.6(c) (definition of simple DAC order), 5.33(b)(5) (definition of complex DAC order), 5.34(c)(11) (DAC order reasonability check), and 5.70(a)(2) (availability of DAC order instruction). See also Securities Exchange Act Release Nos. 90319 (November 3, 2020), 85 FR 71361 (November 9, 2020) (SR-CBOE-2020-014) (Order approving DAC order instructions for FLEX ETF and index options); and 95707 (September 8, 2022), 87 FR 56477 (September 14, 2022) (SR-CBOE-2022-036) (Order approving DAC order instructions for FLEX equity options).

close in order to better align with the indexes they track and attempt to align the market prices of ETF shares as close to the net asset value ("NAV")[30] per share as possible. Further, the Exchange understands that market makers and other liquidity providers seek to balance their books before the market close and contribute to increased price discovery surrounding the market close. The Exchange also believes it is common for other market participants to seek to offset intraday positions and mitigate exposure risks based on their predictions of the closing underlying prices or underlying indexes (which represent the settlement prices of options on those underlyings). The Exchange understands this substantial activity near the market close may create wider spreads and increased price volatility, which may attract further trading activity from those participants seeking arbitrage opportunities and further drive prices. In light of the significant liquidity and price/value movements in equity shares that can occur near the market close, options closing and settlement prices may deviate significantly from options execution prices earlier that trading day.

The proposed DAC order instruction is designed to allow investors to incorporate any upside market moves that may occur following execution of the order up to the market close while limiting downside risk. Additionally, the Exchange has noted that there have been a number of managed funds that recognize benefits to their investors in employing certain strategies that allow for their investors to mitigate risk at the market close while also participating in beneficial market moves at the close. The proposed DAC order would provide such funds with an additional method to attempt to meet their objectives through FLEX options strategies, thereby benefitting their investors. The Exchange understands that, for example,

[30] The NAV is an ETF's total assets minus its total liabilities. ETFs generally must calculate their NAV at least once every business day, and typically do so after market close. See 17 C.F.R. 270.2a-4.

defined-outcome ETF issuers[31] often times use multi-leg strategy orders when seeding their funds. The goal of these strategies is to price the execution of these orders at the close of the underlying; however, there is operational execution risk in attempting to fill an order late in the day to capture the underlying closing price. As such, a DAC complex order would allow the Member to execute the order prior to the close and have its price adjusted at the close. Because multi-leg strategies themselves have delta offsets, the Member is hedged, meaning that the Member may realize a negative movement versus the initial execution on some legs, which is offset by a positive move in other legs. The Exchange notes that the strategies may or may not define an exact delta offset ("delta neutrality" occurs where the strategy defines an exact delta offset). Given the delta neutral nature of an order with an exact offset, a Member would be indifferent to any movement in the underlying from the time of execution to the close. Whether or not a Member defines an exact delta offset, a Member would anticipate a given amount of market exposure, either partial or none, depending on the strategy and combinations of buy/sell, call/put, and quantity. A DAC complex order allows the order to be executed anytime, eliminating the execution risk, while realizing the objective of pricing based on the exact underlying close for those strategies that require pricing at the close or a defined amount of market exposure through the close.

As stated, the System will adjust the original execution price of a DAC order based on a delta value applied to the change in the price of the underlying from the time of order execution to the market close. Delta is the measure of the change in the option price as it relates to a change in the price of the underlying security or value of the underlying index, as applicable.

---

[31] The Exchange notes that defined outcome ETF issuers do not buy stocks directly, but instead, use options contracts to deliver the price gain or loss of an index (such as the S&P 500) over the course of a year, up to a preset cap.

The Exchange notes that 1.0000 is the equivalent of a 100 delta. For example, an option with a 50 delta (which is generally represented as 0.50) would result in the option moving $0.50 per $1.00 move in the underlying (i.e., the price in the underlying x delta value = anticipated price move in the option). Delta changes as the price or value of the underlying stock or index changes and as time changes, thus giving a Member an estimation of how an option will behave if the price of the underlying moves in either direction. Call option deltas are positive (ranging from 0 to 1), because as the underlying increases in price so does a call option. Conversely, put option deltas are negative (ranging from -1 to 0), because as the underlying increases in price the put option decreases in price. The Exchange understands that investors use delta as an important hedging and risk management tool in options trading. For example, by trading an option with a lower delta, an investor's underlying position will be exposed to more downside risk if price or value of the underlying fall. Therefore, the Exchange believes the proposed DAC order instruction will allow a market participant to maintain a full hedge of its position taken upon intraday execution of a DAC order throughout the remainder of the trading day, which ultimately reduces the market participants' portfolio risk.

The Exchange proposes to make DAC pricing instructions available for simple and complex FLEX Orders pursuant to Options 3A, Sections 6(c) and 7(c), respectively. As proposed, Options 3A, Section 6(c)(1) would provide that a DAC order is an order for which the System delta-adjusts its execution after the market close. Specifically, the delta-adjusted execution price equals the original execution price plus the delta value times the difference between the official closing price or value of the underlying on the transaction date and the reference price or index value of the underlying ("reference price"). Upon order entry for electronic execution, a Member must designate a delta value and may designate a reference

price. If no reference price is designated, the System will include the price or value, as applicable of the underlying at the time of order entry as the reference price.[32]

Likewise, the proposed definition in Options 3A, Section 7(c)(1) provides for essentially the same definition, differing only in that it applies to complex FLEX Orders, and upon order entry for electronic execution a Member must designate a delta value per leg.[33]

As set forth in proposed Options 3A, Sections 6(c)(2) and 7(c)(2), DAC orders and DAC complex orders may only be submitted for execution in an electronic FLEX Auction pursuant to Options 3A, Section 11(b), a FLEX Price Improvement Mechanism ("FLEX PIXL") Auction pursuant to Options 3A, Section 12, or a FLEX Solicited Order Mechanism ("FLEX SOM") Auction pursuant to Options 3A, Section 13.[34] As it relates to simple DAC orders only, proposed Options 3A, Section 6(c)(2) would also provide that a DAC order submitted in a single stock equity option may not be submitted until 45 minutes prior to the market close. A DAC order may not be submitted in a single stock equity option on its expiration day.[35]

As a general rule, attempted manipulation of the price of a security encounters greater difficulty the more volume that is traded, and, generally, single name equity securities tend to be less liquid and experience greater price sensitivity and larger market moves than indexes or ETPs. The Exchange notes that on expiration day in particular, underlying equity securities may

---

32 See Cboe Rule 5.6(c)(1) and (2) for materially identical provisions.

33 See Cboe Rule 5.33(b)(5)(A) and (B) for materially identical provisions.

34 Cboe also delineates the submission of DAC orders and DAC complex orders in their various FLEX auction mechanisms. See Cboe Rules 5.6(c) and 5.33(b)(5) for similar provisions, except the Exchange is not proposing to adopt the provisions in Cboe's rules related to open outcry as the Exchange does not have a trading floor. The Exchange is also not proposing to adopt Cboe's language related to designating DAC orders and DAC complex orders as All Sessions or RTH and Curb (i.e., order instructions on when certain orders are eligible to trade during Cboe's various trading sessions). Unlike Cboe, the Exchange does not offer different trading sessions and therefore does not offer such order instructions.

35 See Cboe Rule 5.6(c) for materially identical provisions.

experience more price sensitivity than on non-expiration days and may be more susceptible to incentive to manipulate given that the exercise value of overlying options are contingent on the underlying closing price on expiration day. Options holders on expiration day, whether their positions were taken via a DAC execution or not, are subject to the risk of price swings in the underlying prior to the final close; however, options holders of positions taken via a DAC execution may potentially be more susceptible to such risk given the price adjustment at close. For example, if a market participant executes a DAC order to buy calls on expiration day and a large price swing follows, in that, the underlying price is pushed significantly higher before the close, the DAC option holder would be forced to pay a much higher premium upon adjustment, and ultimately expiration. Therefore, in order to mitigate the potential risk associated with expiration day price swings, which may potentially expose DAC order users the gamma effect of options as they become more sensitive to underlying price changes as they approach expiration, particularly in options overlying less liquid securities, the proposed rule change restricts trading (regardless of opening or closing) in simple DAC orders in single stock options on expiration day. In addition to this, the proposed rule to require simple DAC orders in single stock options to be submitted no earlier than 45 minutes before the market close will reduce the amount of time during which the underlying price could potentially move; movements which, as stated above, may pose greater risk upon price adjustment at close to holders of DAC options. The Exchange notes that the same potential incentive to "push" the price of the underlying on expiration day in connection with the exercise price of an option is greatly diminished for multi-leg orders given that parties to multi-leg transactions are focused on the spread or ratio between the transaction prices for each of the legs (i.e., the net price of the entire complex trade).

Members will enter into the System all DAC orders as they would any other FLEX Order pursuant to Options 3A, Section 11(a) (governing the order entry of FLEX Orders) and the applicable FLEX auction rules in Options 3A, Sections 11(b), 12, and 13. As such, the Exchange points out that DAC orders (like any FLEX Order) may only be submitted in permissible FLEX Option series that comply with Options 3A, Section 3. As defined above, a Member may designate the reference price of the underlying upon submitting a DAC order. The Exchange proposes that a Member-designated reference price will be subject to a reasonability check. Specifically, proposed Options 3A, Section 14(d) will provide that if a Member submits a DAC order to the System with a reference price more than an Exchange-determined amount[36] away from the underlying price or value at the time of submission of the DAC order, the System rejects the order.[37] Moreover, if a Member chooses to submit a DAC order without a reference price, the System will automatically input the price or value of the underlying at the time of order entry as the reference price.

As set forth in proposed Options 3A, Sections 6(c)(1) and 7(c)(1), for a DAC order submitted into a FLEX electronic auction, a Member will be required to designate a delta value upon order entry (including for each leg of a DAC complex order). As noted above, delta is either between 0 and 1 for calls, and 0 and -1 for puts.[38] The Exchange notes that 1.0000 is the equivalent of a 100 delta. Pursuant to the general principles by which deltas function, the delta

---

36 The Exchange will review market activity to determine the Exchange-determined amount and, thereafter, amend that amount from time-to-time. The Exchange will disclose the amount on its webpage at: https://www.nasdaq.com/docs/PHLXSystemSettings.

37 The System will use the most recent last sale (or disseminated index value) as the reference price. See Cboe Rule 5.34(c)(11) for materially identical provisions.

38 Note the Exchange will permit delta values to be input up to four decimals, as prices for the underlying securities and index values may be expressed in four decimals. However, bids and offers may only be input in accordance with Options 3A, Section 5, which bids and offers the System will use to rank and allocate orders and auction responses.

for a call options leg(s) must be greater than zero and the delta for a put options leg(s) must be less than zero. Additionally, the delta for call (put) legs must be less (greater) than or equal to the delta for the adjacent call (put) leg (i.e., the leg with the next largest strike price) of the same expiration as the strike price increases. This is also consistent with the general manner in which deltas function, and ensures that the deltas on the same leg type within the same expiration trend away from zero as the strike value increases.

Typically, a Member submits a complex order (including a DAC complex order, as proposed) with a net price, and, for a complex FLEX Order, a Member must include a price for each leg upon electronic submission.[39] Therefore, upon electronic submission a Member must also designate a delta value per leg along with the leg prices. At market close, the System will then be able to apply the delta value per each of the leg prices to properly calculate the DAC by adjusting the execution price of each leg.

A Member may apply the DAC order instruction (which must be a value greater than 0) to a FLEX Order submitted into an electronic FLEX Auction pursuant to Options 3A, Section 11(b), FLEX PIXL Auction pursuant to Options 3A, Section 12, or FLEX SOM Auction pursuant to Options 3A, Section 13. A DAC order will be handled and executed in the FLEX auctions in the same manner as any other FLEX Order pursuant to the applicable FLEX auction rules, including pricing, priority, and allocation rules.[40] The Exchange also notes that DAC orders submitted to the Exchange will have unique message characteristics, indicative that the order is a DAC order. Therefore, contra-side interest will be aware of the specific order type and may then choose whether or not they wish to interact with DAC orders.

---

[39] See Options 3A, Section 11(a)(2)(B).

[40] See Options 3A, Sections 11(b), 12, and 13.

Pursuant to Options 3A, Section 11(a), FLEX Orders (including proposed DAC orders) may only be submitted for execution in an electronic FLEX Auction, FLEX PIXL Auction, and FLEX SOM Auction. As such, the Exchange believes it is appropriate for DAC orders to only execute in FLEX auctions. The delta and reference price appended to a DAC order would be based on data regarding the underlying at the time of order entry. As those values change as the price or value of the underlying change, the reference price and delta at the time of submission would achieve the desired delta-adjusted price result only if the DAC order executes almost immediately upon submission. To allow a DAC order to potentially execute after a significant amount of time has passed since entry, underlying price and related delta at the time a DAC order would eventually execute would be different and thus not achieve the Member's desired result. If a DAC order executes in an auction, it will do so within a short time following submission. Indeed, the Exchange's FLEX auctions last for a defined period, the length of which is between three seconds to five minutes as designated by the submitting Member.[41] As such, the Exchange believes that the execution of DAC orders in FLEX auctions is consistent with the intended purpose of a DAC order.

For any DAC order that executes during a trading day, upon receipt of the official closing price for the underlying from the primary listing exchange or index provider, the System will adjust the original execution price based on the delta applied to the absolute change in the underlying between the time of execution and the market close. The Exchange notes that, like the execution price of any option, a delta-adjusted price may never be zero or negative. If this occurs as a result of the DAC calculation, the System will set the delta-adjusted price to the minimum permissible increment.

---

41 See Options 3A, Sections 11(b)(1)(F), 12(c)(3), and 13(c)(3).

The delta adjustment formula that will be applied at the close will be as follows:

The delta-adjusted price = the original execution price + (the change in the underlying price x delta) or P2 = P1 + (U – R) * D, where:

- P1 = Original execution price
- P2 = Delta-adjusted price calculated at the close
- R = Reference price
- U = Price of the underlying at the market close
- D = Delta

Example 1: A DAC call order is submitted for execution in an electronic FLEX auction and the price of the underlying increases from the time of the execution to the market close.

- P1 = $1.00
- R = $100
- U = $101.00
- D = .4000

Therefore, P2 = $1.00 + (($101 - $100) * .4000) = $1.40

Example 2: A DAC put order in a penny increment is submitted for execution in a FLEX auction and the price of the underlying increases from the time of execution to the market close.

- P1 = $1.00
- R = $100
- U = $103.00
- D = -.4000

Therefore, P2 = $1.00 + (($103 - $100) * -.4000) = -$0.20. However, because an execution price, including a delta-adjusted execution price, may not be negative, the System would adjust P2 = $0.01 (the minimum permissible increment).

Example 3: A DAC complex order has two legs, where leg 1 is buy call and leg 2 is buy put (straddle).

Leg 1

- P1 = $18.00
- R = $2875.00
- U = $2878.00
- D = .5000

Therefore, P2 = ($18.00 + (($2878 - $2875) * .5000) = $19.50

Leg 2

- P1 = $42.00
- R = $2875.00
- U = $2878.00
- D = -.5000

Therefore, P2 = ($42.00 + (($2878 - $2875) * -.5000) = $40.50

As described above, the Member would be indifferent to the move in the underlying due to the offsetting nature of the two legs. The initial execution price for the DAC complex order (P1) would be $18.00 + $42.00 = $60.00, and the adjusted price calculated at the close (P2) for the DAC complex order would be $19.50 + $40.50 = $60.00. As a result, the Member in this Example 3 would be able to execute a hedged strategy earlier in the trading day and have it priced exactly in line with the underlying close without incurring any market risk or operational risk of trying to time the execution exactly at the close.

Example 4: A defined outcome ETF uses a simple buffer protect strategy in connection

with a seed trade. The Member buys the at the money put and sells the 10% out of the money put while selling the 5% out of the money call.

Leg 1: Buy SPX May 2875 put at $69.00 with 50 delta

- P1 = $69.00
- R = $2875.00
- U = $2878.00
- D = -.5000

Therefore, P2 = ($69.00 + (($2878 - $2875) * -.5000) = $67.50

Leg 2: Sell SPX May 2590 put at $15.00 with 12 delta

- P1 = $15.00
- R = $2875.00
- U = $2878.00
- D = -.1200

Therefore, P2 = ($15.00 + (($2878 - $2875) * -.1200) = $14.64

Leg 3: Sell SPX May 3020 call at $11.50 with 16 Delta

- P1 = $11.50
- R = $2875.00
- U = $2878.00
- D = .1600

Therefore, P2 = ($11.50 + (($2878 - $2875) * .1600) = $11.98

The initial execution price for the order would be $69.00 - $15.00 - $11.50 = $42.50. The adjusted execution price would be $67.50 - $14.64 - $11.98 = $40.88. The strategy would have an overall delta of -.46 (-.5000 + -.1200 +.16). As a result, the fund would be seeded exactly at the closing price with exactly the delta exposure defined by the strategy, without incurring any operational execution risk. The Member would be able to execute a hedged strategy earlier in the

trading day and have it priced exactly in line with the underlying close without incurring any unanticipated market risk or operational risk

of trying to time the execution exactly at the close.

A Member may only apply the DAC order instruction to a FLEX Order for a FLEX Option series with an exercise price expressed as a fixed price in dollars and decimals. The proposed changes in Options 3A, Sections 6(c) and 7(c) will therefore provide that the Exchange may determine to make DAC orders and DAC complex orders available for FLEX trading, except for FLEX Options with an exercise price that is a percentage of the closing value of the underlying equity security or index value, as applicable on the trade date.[42] A Member may not apply the DAC order instruction to a FLEX Order for a FLEX Options series with an exercise price formatted as a percentage of the closing value of the underlying on the trade date, as this functionality is not compatible with the DAC order instruction. The System will need a fixed execution price at the time of order execution that will be delta-adjusted (which delta value is based on dollar price movements in the underlying) following the market close. However, a FLEX Order for a series with an exercise price formatted as a percentage of the closing value will execute at a percentage rather than a fixed price, which would not be determined until the market close. Therefore, the execution price of such a FLEX Order will incorporate the closing price or value of the underlying in a different manner, and the System would not have an execution price to adjust.

Similar to Cboe, the reference price and delta value, as well as the execution price, will be provided to all transaction parties on all fill reports at the time of the execution of a DAC

---

[42] This proposed limitation in Options 3A, Sections 6(c) and 7(c) is substantially similar to the limitation currently in Cboe Rule 5.70(a)(2), except the Exchange will not adopt Cboe's limitation on Asian- and Cliquet-settled FLEX Options. The Exchange does not offer those settlement types today.

order (i.e., an "unadjusted DAC trade"). Unadjusted DAC trade information will also be sent to the Options Clearing Corporation ("OCC") and disseminated to the Options Price Reporting Agency ("OPRA"). Specifically for FLEX DAC orders, like for all FLEX Orders, trade information will be reported via a text message to OPRA.

The Exchange notes that the text message for FLEX DAC orders will contain an indicator that the order was executed as DAC, as well as the delta and the reference price. The Exchange also notes that individual legs of a FLEX DAC complex order will be reported with an identifier that they are part of a complex order just like any complex order legs are reported today. Initial execution will be reported to OPRA as a FLEX text message and will include a DAC identifier, delta value and reference price. The adjusted DAC price will be reported to OPRA as a price correction similar to any other adjusted trade, and will include a cancel for the initial execution followed by a new trade containing the adjusted price. At Market Close, when the execution price is delta-adjusted, all transaction parties will be sent the adjusted prices. Finally, the delta-adjusted price will also be sent to the OCC and OPRA once the restatement process is complete. The prior unadjusted DAC trade report that was sent to the OCC and disseminated to OPRA will be cancelled and replaced with a trade report reflecting the delta-adjusted execution price.[43]

The Exchange has analyzed its capacity and believes the Exchange has the necessary systems capacity to handle additional order traffic and the associated restatements that may result from the adoption of DAC orders. The Exchange also has consulted with OPRA and understands that they have the necessary system capacity as well. Further, the Exchange represents it has an adequate surveillance program in place to monitor orders with DAC pricing

[43] The Exchange notes that this restatement process is the same for an order that has been adjusted or nullified and subsequently restated pursuant to the Exchange's obvious error rules. See Options 3, Section 20.

and that the proposed pricing instruction will not have an adverse impact on surveillance capacity. Also, the Exchange does not believe the proposed order instruction will have any impact on pricing or price discovery at or near the market close. A DAC order will execute intraday in the same manner as any other order, and its price will merely be automatically adjusted following determination of the final closing price or value of the underlying security or index, respectively.

FLEX v. Non-FLEX

FLEX Options are customized equity or index option contracts that allow investors to tailor contract terms for exchange-listed equity and index options. The Exchange may make simple FLEX Orders and complex FLEX Orders pursuant to Options 3A, Section 3, available for FLEX trading. Currently, the legs of a Complex FLEX Order are limited to FLEX Option series only. An investor wishing to trade a complex strategy containing both FLEX Option series and non-FLEX Option series must execute such strategy using two or more separate orders.

At this time, the Exchange proposes to amend its rules to allow for the legs of a complex FLEX Order to include a combination of FLEX Option series and non-FLEX Option series ("FLEX v. Non-FLEX Order") identical to Cboe's rules.[44] The Exchange notes that, with exception of the rules proposed in this rule filing, FLEX v. Non-FLEX Orders will be subject to the same trading rules and procedures that currently govern the trading of other Complex FLEX Orders on the Exchange. To permit the trading of FLEX v. Non-FLEX Orders, the Exchange proposes to amend its rules as follows.

---

[44] See Securities Exchange Act Release No. 102297 (January 28, 2025), 90 FR 8822 (February 3, 2025) (SR-Cboe-2024-047) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2, Regarding the Types of Complex Orders Available for Flexible Exchange Options (''FLEX'') Trading on the Exchange).

The Exchange proposes to add FLEX v. Non-FLEX Orders to the types of complex orders available for FLEX trading.[45] The proposed rule text is substantially similar to Cboe Rule 5.70(b) and (e).[46]

As part of the proposed changes, the Exchange proposes to add a "FLEX Option series" as a defined term in Options 3, Section 3, FLEX Option Listing, at paragraph (b). Further, to enhance comprehension, the Exchange proposes to amend Options 3A, Section 3(b)(2) to add the word "new" before FLEX Options series for clarity.

Next, the Exchange proposes to amend Options 3A, Section 7, Complex Orders. Specifically, the Exchange proposes to amend Options 3A, Section 7(a) to state that the legs of a Complex FLEX Order may be for FLEX Option series only or a combination of FLEX Option series and non-FLEX Option series ("FLEX v. Non-FLEX Order").[47] As noted above, FLEX v. Non-FLEX Orders will be considered complex FLEX instruments, which will be subject to the same trading rules and procedures that govern the trading of other FLEX Orders on the Exchange (unless otherwise noted herein). The Exchange also proposes to amend Options 3A, Section 7(a) to remove the requirements set forth in subparagraphs (1) and (2). Options 3, Section 7(a) provides that each leg(s) of a Complex FLEX Order must be for a FLEX Option series authorized for FLEX trading with the same underlying equity security or index. The

---

45 Complex orders, including a Complex Options Order, Stock-Options Order, and Stock-Complex Order are each as defined in Options 3, Section 14(a)).

46 The Exchange is not adopting language similar to Cboe 5.70(d) which states that in classes determined by the Exchange, a nonconforming FLEX v. Non-FLEX Order is not eligible for electronic processing, in which case the nonconforming FLEX v. Non-FLEX Order may only be submitted for manual handling and open outcry trading. On Phlx, a nonconforming FLEX v. Non-FLEX Order would be eligible for electronic processing.

47 Under the proposed rule change, Complex FLEX Orders could include both listed instruments as well as FLEX instruments (if at least one leg is for a FLEX Option series), with an optional stock leg. Per the definition of complex order, the legs of all complex FLEX Orders (including FLEX v. Non-FLEX options) must have the same underlying security or index. See Options 3A, Section 7(a)(1).

Exchange proposes to delete this requirement, as such requirement is already contained within the definition of a Complex Options Strategy in Options 3, Section 14(a)(1), a Stock-Options Strategy in Options 3, Section 14(a)(2) and a Stock-Complex Strategy in Options 3A, Section 14(a)(3). Options 3A, Section 7(a)(2) provides that each leg(s) of a Complex FLEX Order must have the same exercise style. The Exchange proposes to delete this requirement to allow for the trading of the proposed FLEX v. Non-FLEX Orders and will, in general, provide FLEX Traders with more flexibility and opportunities for customization via FLEX trading. Further, deletion of this requirement that each leg of a Complex FLEX Order (whether comprised of all FLEX Option legs or FLEX and non-FLEX Option legs) must have the same exercise style will expand investors' choices and flexibility, and provide FLEX Traders with a mechanism by which to manage the positions and associated risk in their portfolios more precisely, based on exercise style.[48] As amended, Options 3A, Section 7(a)(1) and (2) are being deleted and Options 3A, Section 7(a)(3) is being amended to provide that for an Index Option, each leg may have a different settlement type (a.m.-settled or p.m.-settled). Also, Options 3A, Section 7(a)(3) is being renumbered as 7(a)(1).

The Exchange also proposes to add rule text at Options 3A, Section 7(d) that provides that the non-FLEX Option leg(s) of a FLEX v. Non-FLEX Order may not Leg into the simple order book. The Exchange believes that this amendment will provide for more efficient execution and processing of FLEX v. Non-FLEX Orders.

Today, FLEX and Non-FLEX Order are subject to different trading settings and parameters (e.g., allocation, entitlements) pursuant to their respective Rules. Non-FLEX Orders have separate market data inputs, as the System must read market data for each options class in

[48] This rule text is identical to Cboe Rule 5.70(b).

connection with potential executions in non-FLEX options classes. If the System receives a FLEX v. Non-FLEX Order, it would need to trade the Non-FLEX leg against the appropriate leg in the respective order book (FLEX Order Book vs. Non-FLEX Order Book). This is because execution opportunities for FLEX v. Non-FLEX Orders may be prevented. For example, if the Non-FLEX leg(s) of the FLEX v. Non-FLEX Order would execute against interest in the standard order book, there would be no execution opportunities for the FLEX leg(s) of the FLEX v. Non-FLEX Order. As discussed below, the Non-FLEX legs of FLEX v. Non-FLEX Orders will protect Priority Customer orders in the simple order book for the Non-FLEX classes.

The Exchange proposes to amend Options 3A, Section 9, Trading Halts. Identical to Cboe Rule 4.21(a)(4), the Exchange proposes a new subparagraph (b) that states that the Exchange may halt trading in a FLEX Options complex strategy (whether comprised of all FLEX Option legs or FLEX and non-FLEX Option legs) if any leg of the strategy is halted. Further, the System does not accept a Complex FLEX Order for a series while trading in the class is halted. A FLEX Options complex strategy may not execute until all legs are no longer halted.

The Exchange proposes to amend Options 3, Section 11, FLEX Options Trading, to distinguish criteria for a complex order with only FLEX Option legs and to add criteria for FLEX and non-FLEX Option legs of a FLEX v. Non-FLEX Order similar to Cboe Rule 5.70. First, the Exchange proposes to amend Options 3A, Section 11(a)(2) to specify that each *FLEX Option* leg of the FLEX Option complex strategy must include all terms for a FLEX Option series set forth in Options 3A, Section 3 (including that a non-FLEX Option series with identical terms is not listed for trading), subject to the order entry requirements set forth in Options 3A, Section 11.[49]

[49] This rule text is identical to Cboe Rule 5.72(b)(2).

Additionally, the Exchange proposes changes to distinguish the criteria for a complex order with only FLEX Option leg(s) from that proposed for FLEX v. Non-FLEX Orders, noting that there are no changes to the criteria to those FLEX Orders containing only FLEX Option leg(s) as a result of the proposed rule change other than removing the requirement that all legs must have the same exercise style. The Exchange proposes to amend Options 3A, Section 11(a)(2) to add a new (B) titled "FLEX Options Legs Only." The Exchange proposes to amend the existing rule text in current Options 3A, Section 11(a)(2)(B) to add "with only FLEX legs" and re-letter this section as Options 3A, Section 11(a)(2)(B)(i).[50]

Next, the Exchange proposes to add a new Options 3A, Section 11(a)(2)(C) to provide the requirements for a complex FLEX Order with only FLEX Option legs submitted into the System for an electronic FLEX Auction pursuant to paragraph (b) below, a FLEX PIXL pursuant to Section 12 below, or a FLEX SOM pursuant to Section 13, which must include a bid or offer price for each FLEX Option leg but no bid or offer price for each non-FLEX Option leg, and a net price. Proposed Options 3A, Section 11(a)(2)(C)(i) would note that to achieve the desired net execution price for a FLEX v. Non-FLEX Order: the execution price of each non-FLEX Option leg may not be worse than the NBBO, worse than the BBO, or equal to the BBO if there is a Priority Customer order(s) on the simple order book. This requirement along with proposed Options 3A, Section 11(a)(2)(C)(ii) are together required to achieve the desired net execution price for a FLEX v. Non-FLEX Order. Proposed Options 3A, Section 11(a)(2)(C)(ii) notes that the execution price of each FLEX Option leg(s) may be adjusted so that the prices of the FLEX legs combined with the prices of the non-FLEX legs add together to equal the net price.[51]

---

[50] Cboe Rule 5.72(b)(2)(A) distinguishes electronic FLEX trading from open outcry FLEX trading for FLEX Options Legs. ISE does not have a trading floor so that distinction is not necessary.

[51] This rule text is identical to Cboe Rule 5.72(b)(2)(B).

Thus, the non-FLEX Option legs of a FLEX v. Non-FLEX Order would be able to trade at the same price as non-Priority Customer interest at the BBO, which is consistent with complex orders comprised of solely non-FLEX Options.[52] In addition, no non-FLEX component of a FLEX v. Non-FLEX Order would be able to trade at the same price as resting Priority Customer interest at the BBO.[53] If a non-FLEX Option leg of a FLEX v. Non-FLEX Order cannot execute at a price permissible that meets the requirements set forth in proposed Options 3A, Section 11(a)(2)(C)(i) the entire FLEX v. Non-FLEX Order will be cancelled.

The below examples are designed to illustrate the pricing of a FLEX v. Non-FLEX Order. Assume for each example a FLEX Trader wishes to execute a Complex FLEX Order with two legs (one FLEX Option leg and one non-FLEX Option leg).

Example 1

Listed (i.e., non-FLEX) legs are adjusted to their NBBO, FLEX Option leg is adjusted residually to meet net execution price.

Instrument ID	**Legs**	**Symbol**	**Side**	**Ratio**	**Expiration**	**Strike**	**Type**
CI0001	Leg 1	XYZ	Buy	1	December	10	Call
	Leg 2	1 XYZ	Sell	1	November	10.01	Call

Market for Non-FLEX Leg

Away BBO: 2.15 x 2.35
BBO: 2.20 x 2.30
NBBO: 2.20 x 2.30

FLEX Order Auction ("FOA"): Buy 10 CI0001 @ 1.25

[52] See Cboe Rule 5.33(f)(2)(A)(ii).

[53] See proposed Options 3A, Section 11(a)(2)(C)(i).

Leg 1 (Non-FLEX Option Leg) Price: N/A

Leg 1 Market: (Exchange Market-Maker) 2.20 x 2.30 (Exchange Market-Maker) Leg 2 (FLEX Option Leg) Price: 1.00

Response 1: Sell 5 CI0001 @ 1.19

Response 2: Sell 5 CI0001 @ 1.25

FOA trades 5 CI0001 with Response 1 at 1.19. The legs print at 2.20 and 1.01.[54]

FOA trades 5 CI0001 with Response 2 at 1.25. The legs print at 2.25 and 1.00.[55]

Example 2

Listed (i.e., Non-FLEX) legs are adjusted up/down to their NBBO, FLEX Option leg retains specified price, as no further adjustment is needed to meet net price.

Instrument ID	**Legs**	**Symbol**	**Side**	**Ratio**	**Expiration**	**Strike**	**Type**
CI0001	Leg 1	XYZ	Buy	1	December	10	Call
	Leg 2	1 XYZ	Sell	1	November	10.01	Call

Market for Non-FLEX Leg

Away BBO: 2.10 x 2.35
BBO: 2.15 x 2.30
NBBO: 2.15 x 2.30

[54] In this example, the Leg 1 market is 2.20 x 2.30; the System would ensure that the Exchange does not trade through this market. The transaction price is $1.19 (Response 1). With a Leg 2 price of $1.00, Leg 1 would have to trade at $2.19, however, because this would be outside the NBBO, Leg 1 will execute at $2.20. As a result, Leg 2 would have to be adjusted to as close to the stipulated price of $1.00 as possible - $1.01. The final transaction would price Leg 1 at $2.20 and Leg 2 at $1.01 for a next price of $1.19 (Response 1).

[55] In this example, the net price is $1.25, and the market for Leg 1 is $2.20 x $2.30. The System cannot print Leg 2 at the stipulated price of $1.00 because it would trade through. The transaction price is $1.25 (Response 2). With a Leg 2 price of $1.00, Leg 1 would have to trade at $2.25. Leg 1 is able to execute at $2.25 since this is between the NBBO and Leg 2 would be allowed to execute t $1.00. The final transaction would price Leg 1 at $2.25 and Leg 2 at $1.00 for a next price of $1.25 (Response 2).

FOA: Buy 10 CI0001 @ 1.25.

Leg 1 (Non-FLEX Option Leg) Price: N/A

Leg 1 Market: (Exchange Market-Maker) 2.15 x 2.30 (Exchange Market-Maker) Leg 2 (FLEX Option Leg) Price: 1.00

Response 1: Sell 5 CI0001 @ 1.19

Response 2: Sell 5 CI0001 @ 1.25

FOA trades 5 CI0001 with Response 1 at 1.19. The legs print at 2.19 and 1.00.[56] FOA trades 5 CI0001 with Response 2 at 1.25. The legs print at 2.25 and 1.00.[57]

While the System followed the same process in both examples, because the leg market was wider in the second example, the System was able to execute the non-FLEX leg in that example at a price within that market without the need to adjust the entered price of the FLEX leg.

Finally, the Exchange proposes to adopt a new Options 3A, Section 20 titled "Nullification and Adjustment of Options Transactions including Obvious Errors." Today, obvious errors related to complex orders are described in Supplementary .05 to Options 3, Section 20. The Exchange proposes to provide in this new section that in addition to the language in Supplementary .05 to Options 3, Section 20, the following paragraph will apply as it relates to FLEX Orders.

---

[56] In this example, the Leg 1 market is $2.15 x $2.30; the System would ensure that the Exchange does not trade through this market. The transaction price is $1.19 (Response 2). With a Leg 2 price of $1.00, Leg 1 would have to trade at $2.19because this would be inside the NBBO, Leg 1 will execute at $2.19. Therefore, Leg 2 would not have to be adjusted and would execute at $1.00. The final transaction would price Leg 1 at $2.19 and Leg 2 at $1.00.

[57] In this example, the price is $1.25, and the market for Leg 1 is $2.15 x $2.30. The next transaction price is $1.25 (Response 2). With a Leg 2 price of $1.00, Leg 1 would have to trade at $2.25 and because this would be inside the NBBO, Leg 1 will execute at $2.25. Therefore, Leg 2 would not have to be adjusted and would execute at $1.00. The final transaction would price Leg 1 at $2.25 and Leg 2 at $1.00.

Specifically, the Exchange proposes to add rule text to this new Options 3A, Section 20 to state that if a non-FLEX Option leg of a FLEX v. Non-FLEX Order qualifies as an Obvious Error under Options 3, Section 20(c)(1) or a Catastrophic Error under Options 3, Section 20(d)(1), then the non-FLEX Option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with Options 3, Section 20(c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the non-FLEX Option leg of any Customer order subject to proposed paragraph (a) of Options 3A, Section 20 will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's net execution price for the non-FLEX Option leg. If any leg of a FLEX v. Non-FLEX Order is nullified, the entire transaction is nullified. This is consistent with the Exchange's handling of other complex orders, including stock-option orders, and ensures protections in the event of an Obvious or Catastrophic error. The below example is designed to illustrate how a FLEX v. Non-FLEX Order will be processed in the event of an Obvious Error. Assume in the example that a FLEX Trader wishes to execute a Complex FLEX Order with three legs (one FLEX Option leg and two non-FLEX Option leg).

Example 3: Listed Leg 1 qualifies as Obvious Error.

Leg 1: Buy 1 Call 1.00 x 1.20

Leg 2: Buy 1 Call 2.00 x 2.25

Leg 3: Buy 1 FLEX Call (Note: the FLEX leg is not considered in determining obvious error adjustments)

cNBBO[58] of listed legs: 3.00 x 3.45

[58] The term "cNBBO" means the best net debit or credit price for a Complex Order Strategy based on the NBBO for the individual options components of a Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. See Options 3, Section 14(a)(vi).

Assume Leg 1 updates to 1.00 x 4.00; Listed Leg cNBBO updates to 3.00 x 6.25

1 millisecond later

Complex Order trades at 5.45

Leg 1 trades @ 2.25

Leg 2 trades @ 2.20

FLEX leg trades @ 1.00. This order, specifically the execution on Leg 1, qualifies as Obvious Error, based on prices prior to Leg 1 market going wide.[59] In this example the prior market was $1.00 x $1.20 before the market widened and Leg 1 traded at $2.25, therefore this qualifies as Obvious Error.

Obvious error adjustment: Leg 1 is adjusted to trade at 1.60

Theoretical Price[60] ("TP") = 1.10[61]

theoretical offer[62] = 1.45

theoretical offer (1.45) + 0.15 adjustment[63] = 1.60.

The Exchanges notes that the counterparties to an execution of a FLEX v. Non-FLEX Order trade all of the component legs of the order.

---

59 See proposed paragraph (a) of Options 3A, Section 20. See also Options 3, Section 20(c)(1). An Obvious Error will be deemed to have occurred when the Exchange receives a properly submitted filing where the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown in a table at Options 3, Section 20(c)(1).

60 Upon receipt of a request for review and prior to any review of a transaction execution price, the "Theoretical Price" for the option must be determined. If the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of the exceptions in subparagraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to Exchange's receipt of the order. See Options 3, Section 20(b).

61 The Theoretical Price is 1.10 because it is the midpoint between the market (1.00 x 1.20).

62 The theoretical offer shown above represents the offer for purposes of this example.

63 See proposed paragraph (a) of Options 3A, Section 20. See also Options 3, Section 20(c)(4)(A). Where neither party to the transaction is a Customer, the execution price of the transaction will be adjusted by the Official pursuant to the table at Options 3, Section 20(c)(4)(A). Any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in sub-paragraph (a)(4) of Options 3, Section 20. For purposes of this Rule, an Official is an Options Exchange Official as defined in Options 1, Section 1(b)(38).

The Exchange believes that its existing surveillance and reporting safeguards in place are adequate to deter and detect possible manipulative behavior which might arise from trading FLEX v. Non-FLEX Orders and will support the protection of investors and the public interest. The Exchange also represents that it has the necessary system capacity to support the new complex FLEX Order type. Finally, the Exchange does not believe that any market disruptions will be encountered with the introduction of this complex FLEX Order type. The Exchange currently allows for trading of several types of complex orders, including Stock-Option Orders, and has not experienced any market disruptions or issues with capacity. Rather, the Exchange believes the introduction of this complex FLEX Order type may promote more efficient trading, as investors wishing to trade a complex strategy containing both FLEX Option series and non-FLEX Option series would no longer be required to execute such strategy using two or more separate orders.

Other FLEX Changes

The Exchange proposes to amend Options 3A, Section 11(b)(2)(D)(vi) related to FLEX Options Trading to add the following language to the rule, "Complex FLEX responses must be entered in increments provided in Options 3, Section 14(c)(1) at the proposed execution net price or at a price that is at least one cent better for the Agency Order for a Stock-Option Strategy or a Stock-Complex Strategy." The minimum price increment for FLEX responses must adhere to the allowable price increments for FLEX. A response to a FLEX Auction of a Complex Order must have a net price. The System will reject a FLEX response that is not in the applicable minimum increment. The Exchange believes that this additional language will provide members with additional information as all Complex Orders trade in the increments described in Options 3, Section 14(c)(1) which states that bids and offers for Complex Options Strategies may be

expressed in one cent ($0.01) increments, and the options leg of Complex Options Strategies may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. A similar change is also proposed for Options 3A, Section 12(c)(5)(G) that provides, "FLEX PIXL responses in a complex strategy with a stock component that are through the Stop Price must improve such Stop Price by at least one cent" and at proposed Options 3A, Section 13(c)(5)(G) that provides, "FLEX PIXL responses in a complex strategy with a stock component that are through the Stop Price must improve such Stop Price by at least one cent." Additionally, the same change is proposed for FLEX SOM at Options 3, Section 13(c)(5)(G).[64]

The Exchange proposes to amend Options 3A, Section 14(b) related to Risk Protections to provide that certain complex order risk protections in Options 3, Section 16 are available to FLEX, such as Options Strategy Protections (only to FLEX Auctions and FLEX responses in Section 11(b) above), Size Limitation, the Price Limit for Complex Orders protections as applicable to the stock component (as described in Options 3, Section 16(a), (*except that DNTT is not available for the stock component),* the Stock-Tied NBBO protections *(only to FLEX Auctions and FLEX responses in Section 11(b) above*) (as described in Options 3, Section 16(d)),

[64] As proposed, Options 3, Section 13(c)(5)(G) would state that FLEX SOM responses in a complex strategy with a stock component that are through the Stop Price must improve such Stop Price by at least one cent.

and the Stock-Tied Reg SHO protections (as described in Options 3, Section 16(e)). The Exchange proposes this rule text to make clear that "Do-Not-Trade-Through" or "DNTT" will not apply to the stock component of the order. This additional language provides greater clarity to the risk protections. The Exchange notes that DNTT applies only to options transactions. The stock component of the order is not executed on the Exchange and therefore would not be subject to DNTT.

Implementation

The Exchange proposes to implement the rule changes on or before Q3 2027. The Exchange will issue an Options Trader Alert notifying Members of each implementation date.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[65] in general, and furthers the objectives of Section 6(b)(5) of the Act,[66] 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.

FLEX Percentages

The Exchange believes that the proposed enhancement to allow prices in FLEX trading to be expressed using a percentage-based methodology would remove impediments to and perfect the mechanism of a free and open market as this change would provide greater flexibility in terms of describing an option contract tailored to the needs of the investor. In addition, the

65 15 U.S.C. 78f(b).

66 15 U.S.C. 78f(b)(5).

Exchange believes that the related changes to specify how exercise prices and bids/offers will be rounded, and how they will be stated using the proposed percentage-based methodology should provide greater clarity and allow market participants to specify contracts that meet their particular needs. In addition, the proposed changes would align the Exchange's FLEX rules with the FLEX rules of Cboe as noted throughout the "Purpose – FLEX Percentages" subsection above, and therefore raises no novel issues.

FLEX DAC

The Exchange believes that the proposed DAC order will promote just and equitable principles of trade and will remove impediments to and perfect the mechanism of a free and open market and national market system, as it will allow market participants to incorporate into the pricing of their options the closing price of the underlying on the transaction date based on the amount in which the price or value of the underlying change intraday, thus, allowing investors to incorporate potential market moves that may occur following the execution of an order up to the market close. As described above, the market close is a time in which a significant numbers of participants interact on the equity markets. This activity may contribute to substantially increased liquidity and significant price volatility near the close of the equity markets, which can potentially cause the closing prices of the underlyings and, therefore, the settlement prices of options on those underlyings to greatly deviate from the average option execution prices traded earlier that trading day. The Exchange believes DAC orders will serve to protect investors by allowing them, through use of the underlying reference prices and delta, to fully hedge their options positions taken during the trading day through the market close and potentially benefit from price movements at the close. Also, as managed funds have begun utilizing strategies at the close in order to mitigate risk at the close and participate in beneficial market moves at the same

time, the Exchange believes that DAC orders will offer an additional method by which these funds will be able to meet these objectives through the execution of FLEX options strategies, thereby benefiting investors that hold shares of these funds.

Additionally, the proposed restrictions in Options 3A, Section 6(c)(2) in connection with the submission of simple DAC orders in equity options are designed to prevent fraudulent and manipulative acts and practices and protect investors by mitigating the potential risk associated with expiration day price swings, which may potentially expose DAC order users to the gamma effect of options as they become more sensitive to underlying price changes as such options approach expiration, and reducing the amount of time during which the underlying price could potentially move. As described above, single-name securities may experience greater price sensitivity and may experience larger price swings than compared to indexes and ETFs, and DAC option holders in particular may potentially be subject to a greater risk of paying much higher premiums given the price adjustment at close. The Exchange believes the proposed restrictions will minimize any potential incentive to attempt to manipulate the equities that may underlie a DAC order, particularly those securities that may experience relatively lower volume, and will mitigate potential risk to holders of DAC options in single-name securities.

The Exchange further believes that the adoption of DAC orders on the Exchange will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system because DAC orders will be entered, priced, prioritized, allocated and execute as any other FLEX Order would when submitted into any FLEX auction. Like any FLEX Order, a FLEX DAC order may only be submitted into FLEX Options series eligible for trading pursuant to the FLEX Rules. As such, market participants would not be subject to any new or novel order entry, pricing, allocation, and

execution processes in relation to their DAC orders as such orders will be handled pursuant to the Exchange Rules in Options 3A governing the applicable FLEX auction processes, which have been previously approved by the Commission.

The Exchange believes that the general delta value requirements are in line with just and equitable principles or trading and with the protection of investors because they are consistent with the manner in which a delta is commonly known to function and generally used in options trading. Further, the Exchange believes that proposed Options 3A, Section 14(d) provides a System control in connection with DAC orders that is designed to protect investors. The Exchange believes the proposed reference price reasonability check will mitigate risks associated submitting a DAC order with a reference price unintended by the Member as a likely result of human or operational error. The Exchange also notes that the proposed DAC order reasonability check in Options 3A, Section 14(d) is materially identical to Cboe's DAC order reasonability check in Cboe Rule 5.34(c)(11).

In addition, the Exchange believes that permitting a DAC order to execute only in a FLEX auction will protect investors and serve to remove impediments to and perfect the mechanism of a free and open market and national market system, because it is consistent with the intended purpose of DAC orders. This would ensure that DAC orders that can execute would do so within a short time following submission and therefore in a manner that achieves a Member's desired delta-adjusted price. As described above, the goal of a DAC order is to adjust the execution price based on a delta value applied to the change in the underlying price between the market close and the time of the trade. Therefore, a DAC order must be able to execute as close in time as possible to the time of order submission (i.e. the point in time a Member designates a reference price and delta) so as to allow the reference price and related delta to

remain in line with the underlying price information at the time of submission and achieve the User's desired result. As such, a DAC order submitted to a FLEX auction, like any FLEX Order submitted in a FLEX auction, will be executed within a short time following submission. Thus, the Exchange believes that the proposed limitation to FLEX auctions would protect investors by allowing DAC orders to execute in line with Members' expectations and a DAC order's intended purpose.

The Exchange believes that by providing that a User may not apply the DAC order instruction to a FLEX Order for a FLEX Option series with an exercise price formatted as a percentage of the closing value of the underlying on the trade date will remove impediments to and perfect the mechanism of a free and open market and national market system and generally protect investors because these FLEX terms are inconsistent with the DAC order instruction and would conflict with the manner in which the System calculates the delta-adjusted price upon the market close.

The Exchange notes that it has discussed with the OCC and OPRA its plan to adopt DAC orders and to apply the restatement process described above to FLEX DAC orders. Moreover, the Exchange represents that it has the necessary systems capacity to handle any additional order traffic and the related restatements that may result from the adoption of DAC orders, thereby ensuring the protection of investors. The Exchange also has consulted with OPRA and understands that they have the necessary system capacity as well. The Exchange also believes that its existing surveillances are adequate to monitor trading of DAC orders thereby helping to ensure the maintenance of a fair and orderly market.

Finally, as noted in the purpose section, the proposed DAC changes are substantially similar to Cboe's DAC order instruction. As discussed above, there are minor differences in the

Exchange's proposed implementation of DAC orders. Notably, the Exchange will not adopt Cboe's DAC rule provisions related to open outcry trading, designations for different trading sessions, or Asian- and Cliquet-settled FLEX Options, as the Exchange does not offer these capabilities today. The Exchange therefore does not believe that the proposed changes raise any novel issues that have not already been considered by the Commission, notwithstanding these minor differences.

FLEX v. Non-FLEX

Specifically, the Exchange believes the proposed rule change will benefit investors by expanding investors' choices and flexibility with respect to the trading of FLEX Options. The Exchange believes that introducing FLEX v. Non-FLEX Orders will increase order flow to the Exchange, increase the variety of options products available for trading, and provide a valuable tool for investors to manage risk.

The Exchange believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market as FLEX v. Non-FLEX Orders would enable market participants to execute a complex strategy including a combination of FLEX Option series and non-FLEX Option series, which would, in turn, provide greater opportunities for market participants to manage risk through the use of a complex FLEX Order to the benefit of investors and the public interest. The proposed rule change will benefit Members by providing a more efficient mechanism for Members to provide and seek liquidity for customized or complex FLEX strategies which include a non-FLEX Option leg(s).

Further, trading FLEX Options, including FLEX v. Non-FLEX Orders, on an exchange is an alternative to trading customized options in OTC markets and carries with it the advantages of exchange markets such as transparency, parameters and procedures for clearance and settlement,

and a centralized counterparty clearing agency. Therefore, the Exchange believes the proposed rule change will promote these same benefits for the market as a whole by providing an additional venue for market participants to seek liquidity for customized, large-sized, or Complex FLEX option orders, including those with a non-FLEX Option leg(s). The Exchange believes that providing an additional venue for these FLEX orders, rather than potentially splitting the orders across OTC and exchange markets, will benefit investors by increasing competition for order flow and executions, and thereby potentially result in more competitive pricing related to FLEX Options.

The Exchange believes that the proposed changes to Options 3A, Section 7 to add FLEX v. Non-FLEX Orders to the list of complex orders available for FLEX trading, are consistent with the Act and remove impediments to and perfect the mechanism of a free and open market and a national market system because the changes will allow investors to trade in a more efficient manner, allowing investors to better customize their trading strategies and implement more precise trading strategies which are not available under current rules. Currently, a market participant is unable to trade a FLEX Option and a listed option as part of the same complex strategy; such user must submit an order containing the FLEX Option(s) and an order containing the listed option. This may introduce additional complexities such as price and legging risk, which would be eliminated under the proposed rule change. These complexities may unnecessarily limit market participants' ability to trade in an exchange environment that offers the added benefits of transparency, price discovery, liquidity, and financial stability. These investors may have improved capability under the proposed rule change to execute strategies to meet their specific investment objectives by using a single order with customized FLEX Option legs with FLEX and Non-FLEX Orders.

The Exchange's proposal to amend Options 3A, Section 12(e)(1)(B)(ii) related to FLEX PIXL to add rule text concerning guaranteed allocation is consistent with the Act as this is case today and this rule text will serve as a guidepost and reminder that a Member may elect less than their guaranteed allocation in non-FLEX Option legs.

Similarly, the Exchange also believes the proposed changes to Options 3A, Section 7(a), to remove the requirement that each leg of a complex FLEX Order must have the same exercise style, will remove impediments to and perfect the mechanism of a free and open market and benefit investors, because it will provide Members with additional flexibility and precision in their investment strategies, by allowing Members to trade complex strategies that would otherwise be required to split into multiple, separate orders.

The Exchange believes the proposed addition of Options 3A, Section 9(b) which address when the Exchange may halt trading in a FLEX Options complex strategy (whether comprised of all FLEX Option legs or FLEX and non-FLEX Option legs), are consistent with the Act and promotes the public interest and the protection of investors by clarifying the Exchange's authority with respect to FLEX Options complex strategies comprised of all FLEX Option legs and providing a consistent and transparent procedure with respect to FLEX Options complex strategies comprised of FLEX and non-FLEX Option legs, that would be applied by the Exchange, similar to trading halt authority under current rules.[67] Further, the proposed change to add the defined term "FLEX Option series" provides further clarity within the Rules and eliminates potential confusion by providing a definition of "FLEX Option series" to the benefit of investors.

[67] See, e.g., Options 3A, Section 9.

The Exchange believes the proposed changes to Options 3A, Section 11(a)(2), which provide clarity with respect to the criteria required for Complex FLEX Orders with FLEX Option legs only in new (B), helps will help promote a fair and orderly national options market system. As such, the changes proposed under Options 3A, Section 11(a)(2)(C), to separate out the requirements for Complex FLEX Orders with FLEX Option legs only, provide clarity regarding the requirements for Complex FLEX Orders with FLEX Option legs only, as compared to the proposed requirements for Complex FLEX Orders with FLEX and non-FLEX Option legs.

The Exchange believes the proposed pricing requirements for FLEX v. Non-FLEX Orders, set forth in proposed Options 3A, Section 11(a)(2)(C), would remove impediments to and perfect the mechanism of a free and open market, as the proposed trading process for FLEX v. Non-FLEX Orders will provide the ability for investors to achieve the desired net package price for those orders while protecting customers with resting interest in the non-FLEX simple order book. By requiring a FLEX v. Non-FLEX Order submitted into a FLEX Auction to include a bid or offer price for each FLEX Option leg, but no bid or offer for each non-FLEX Option leg, and a net price, the requirements ensure that the non-FLEX Option leg will be subject to the same pricing requirements as they would if not part of a FLEX v. Non-FLEX Order. Specifically, the price of any non-FLEX Option leg that is part of a FLEX v. Non-FLEX Order may not be outside of the BBO or NBBO. The Exchange's proposal will continue to protect Priority Customer interest on the Exchange, as the non-FLEX Option legs of a FLEX v. Non-FLEX Order will always trade at a price better than BBO if there is a Customer on a leg. Further, the price of a FLEX Option leg(s) that is part of a FLEX v. Non-FLEX Order must, following execution of the Non-FLEX Option leg(s), serve to achieve the net execution price (which may not be worse than the desired net price included at order submission), which the

Exchange believes will protect investors by ensuring the price of the FLEX Option leg(s) adhere to the agreed upon execution prices and the order's limit price.

The Exchange believes this proposed trading process will ensure that a user who chooses to submit a listed (i.e., Non-FLEX) leg as part of a FLEX v. Non-FLEX Order is subject to the same pricing requirements as they would be if the listed leg was not submitted with FLEX Option legs for execution. Ultimately, FLEX v. Non-FLEX Orders will trade in the same manner as Complex FLEX Orders do today, and execution of the non-FLEX Option legs of these orders will continue to comply with linkage requirements (by not permitting trade-throughs of the NBBO) and protect resting customer interest in the simple order book. Further, the Exchange believes that the proposal to not permit the non-FLEX Option legs of a FLEX v. Non-FLEX Order to leg into the simple order book is consistent with the Act and promotes the public interest and the protection of investors, because it will provide for more efficient execution and processing of FLEX v. Non-FLEX Orders, as legging would prevent execution opportunities for these orders (as discussed above).

Finally, the Exchange believes that the proposed rule change is designed to not permit unfair discrimination among market participants as all Members may, but are not required to, trade FLEX v. Non-FLEX Orders.

Other FLEX Changes

The Exchange's proposal to amend Options 3A, Section 11(b)(2)(D)(vi) and Options 3A, Section 12(c)(5)(G) to describe the minimum increments is consistent with the Act because all Complex Orders trade in the increments described in Options 3, Section 14(c)(1) which states that bids and offers for Complex Options Strategies may be expressed in one cent ($0.01) increments, and the options leg of Complex Options Strategies may be executed in one cent

($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order.

The Exchange's proposal to amend Options 3A, Section 14(b) to provide that certain complex order risk protections in Options 3, Section 16 are not available for the stock component is consistent with the Act as the risk protections are for the options.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed enhancements with respect to FLEX percentages and FLEX DAC will not impose an undue burden on intra-market competition because the use of both the percentage methodology and the DAC order instruction will be optional and available to all Members on the same terms. For example, any Member may determine whether to apply a DAC order instruction to its FLEX Order, and the System will handle FLEX DAC orders submitted by Members in the same manner pursuant to the proposed rule change.

The proposed percentage methodology will not impose an undue burden on inter-market competition as it is intended to provide greater flexibility in terms of describing an option contract tailored to the needs of the investor. Further, the proposed DAC order instruction will not impose an undue burden on inter-market competition because it is intended to provide market participants with an additional means to manage risks in connection with potential volatility and

downside price swings that may occur near the market close, while allowing them to receive potential benefits associated with any market moves near the market close. As noted above, the proposed enhancements to FLEX are substantially similar to Cboe's FLEX rules. As such, the Exchange believes that its proposal may foster competition among options exchanges, as it would provide additional choices for investors and market participants who seek to utilize the proposed percentage methodology or the proposed DAC functionality. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also recognized that current regulation of the market system "has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies."[68]

The Exchange does not believe that the proposed rule changes for FLEX v. Non-FLEX will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as all Members that are registered as FLEX Traders in accordance with the Exchange's Rules will be able to trade FLEX v. Non-FLEX Orders in the same manner.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposal is designed to increase competition for order flow on the Exchange in a manner that is beneficial to investors because it is designed to provide investors seeking to execute both a FLEX Option(s) and a listed option(s) with a more effective method of executing

[68] See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

the trades, which may result in trade efficiencies (i.e., pricing or reporting (e.g., position limits) efficiencies)[69] and reduced risk (i.e., pricing and legging risk). The Exchange believes the proposed rule change will encourage competition, as it may broaden the base of investors that use FLEX Options to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options. The Exchange believes the proposed rule change may increase competition as it may lead to the migration of options currently trading in the OTC market to trading on the Exchange. Also, any migration to the Exchange from the OTC market would result in increased market transparency and thus increased price competition.

The Exchange further notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. All Members may, but are not required to, trade FLEX v. Non-FLEX Orders at the Exchange. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as other exchanges could adopt this order type if so desired.

Other FLEX Changes

The Exchange's proposal to amend Options 3A, Section 11(b)(2)(D)(vi) and Options 3A, Section 12(c)(5)(G) to describe the minimum increments does not impose an undue burden on competition because all Complex Orders trade in the increments described in Options 3, Section 14(c)(1) on Phlx uniformly.

The Exchange's proposal to amend Options 3A, Section 14(b) to provide that certain complex order risk protections in Options 3, Section 16 are not available for the stock component is does not impose an undue burden on competition as the risk protections are for the

[69] See, e.g., Options 3A, Section 18.

options.

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[70] and subparagraph (f)(6) of Rule 19b-4 thereunder.[71]

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:

---

70 15 U.S.C. 78s(b)(3)(A)(iii).

71 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Electronic Comments:

- Use the Commission's internet comment form (https://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include file number SR-Phlx-2026-05 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-Phlx-2026-05. 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-Phlx-2026-05 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.[72]

Sherry R. Haywood,

Assistant Secretary.

[72] 17 CFR 200.30-3(a)(12) and (59).