

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-105625; File No. SR-Phlx-2026-37]

Self-Regulatory Organizations; Nasdaq Phlx, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Permit Non-Conforming Ratios

June 8, 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 June 3, 2026, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to permit Complex Orders to trade in non-conforming and conforming ratios both on the Complex Order Book and in various auctions.

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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

1. Purpose

The Exchange proposes to permit Complex Orders to trade in non-conforming and conforming ratios³ both on the Complex Order Book and in various auctions. This proposed rule change is substantially similar to SR-MIAX-2023-01.⁴

Background

The Exchange currently permits only a Complex Options Strategy where the ratio between the sizes of the options components of a Complex Order is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).⁵ Additionally, today, the Exchange permits only a Stock-Option Strategy and Stock-Complex Strategy with a ratio no greater than eight-to-one (8.00) where the ratio represents the total number of units of the underlying stock or convertible security in the option leg(s) to the total number of units of the underlying stock or

³ The term “conforming ratio” is where the ratio between the sizes of the options components of a Complex Order is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.00) ratio is a conforming ratio, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not; where one component of the Complex Order is the underlying security, the ratio between any options component and the underlying security component must be less than or equal to eight contracts to 100 shares of the underlying security. See Options 1, Section 1(b)(13).

⁴ See Securities Exchange Act Release No. 96752 (January 26, 2023), 88 FR 6795 (January 26, 2023) (SR-MIAX-2023-01) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Exchange Rule 518, Complex Orders).

⁵ See Options 3, Section 14(a)(1). A Complex Options Strategy is the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. Only those Complex Options Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

convertible security in the stock leg.⁶

Proposal

At this time, the Exchange proposes to adopt a definition for “non-conforming ratio” in Options 1, Section 1, Definitions, that is identical to MIAX Rule 518(a)(16).⁷ Today, the Exchange defines “conforming ratio” at Options 1, Section 1(b)(13). Specifically, the Exchange proposes to state at Options 1, Section 1(b)(31),

The term “non-conforming ratio” is where the ratio between the sizes of the components of a complex order comprised solely of options is greater than three-to-one (3.00) or less than one-to-three (.333); where one component of the complex order is the underlying security (stock or ETF) or security convertible into the underlying stock (“convertible security”), the ratio between the option component(s) and the underlying security (stock or ETF) or convertible security is greater than eight-to-one (8.00).

The Exchange proposes to amend various rules to update cross-references that were amended with the addition of the definition of non-conforming ratio at Options 1, Section 1(b)(31). Specifically, the Exchange proposes to amend Options 2, Section 1(a); Options 2,

⁶ See Options 3, Section 14(a)(2) and (3). A Stock-Option Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg. A Stock-Complex Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of a Complex Options Strategy on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, where the ratio represents the total number of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

⁷ MIAX Rule 518(a)(16) state that a “non-conforming ratio” is where the ratio between the sizes of the components of a complex order comprised solely of options is greater than three-to-one (3.00) or less than one-to-three (.333); where one component of the complex order is the underlying security (stock or ETF) or security convertible into the underlying stock (“convertible security”), the ratio between the option component(s) and the underlying security (stock or ETF) or convertible security is greater than eight-to-one (8.00). The Exchange further defines specific types of Complex Strategies in Options 3, Section 14(a).

Section 11(f); Options 3, Section 20(a)(3); Options 4C, Section 2(b)(4); Options 7, Section 1(c); Options 8, Section 11(a)(1); and Options 8, Section 25(a)(1)(B).

With this proposal, the minimum increments for Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies with non-conforming ratios will be identical to the minimum increments for Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies with conforming ratios. Under the proposal, bids and offers for Complex Options Strategies in non-conforming ratios 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. Further, under the proposal, bids and offers for Stock-Option Strategies and Stock-Complex Strategies with non-conforming ratios 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. Finally, the options leg of a Stock-Option Strategy or Stock-Complex Strategy with a non-conforming ratio 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 understands that there may be some concerns that if the ratios of Complex Orders, where each component leg is allowed to trade in one cent increments, are too greatly expanded, market participants will, for example, enter Complex Orders with non-conforming ratios designed primarily to trade orders in a class in pennies that cannot otherwise execute as single-leg orders in that class in pennies. The Exchange believes it is highly unlikely that market participants will submit non-bona-fide trading strategies with larger ratios just to trade in penny increments. Adding a single leg to a larger order just to obtain penny pricing may further reduce

execution opportunities for such an order because it may be less likely that sufficient contracts in the appropriate ratio would be available and because it is unlikely that other market participants would be willing to execute against an order that is not a bona-fide trading strategy. Further, pursuant to General 9, Section 1(c), no member or member organization shall engage in acts or practices inconsistent with just and equitable principles of trade, and entering orders for non-bona-fide trading strategies may constitute acts or practices inconsistent with just and equitable principles of trade.

The Complex Order priority rules will continue to protect Public Customer interest on the single-leg order book. Pursuant to Options 3, Section 14(c)(2), Complex strategies will continue to not execute at prices inferior to the best net price achievable from the best Exchange bids and offers for the individual legs. At this time, the Exchange proposes to amend Options 3, Section 14(c)(2)(i) which currently states,

Complex Options Strategies may be executed at a total credit or debit price with one other member organization without giving priority to bids or offers established on the Exchange that are no better than the bids or offers in the individual options series comprising such total credit or debit; provided, however, that if any of the bids or offers established on the Exchange consist of a Public Customer Order, the price of at least one leg of the complex strategy must trade at a price that is better than the corresponding bid or offer on the Exchange by at least one minimum trading increment for the series as defined in Options 3, Section 3.

The proposed amendment revises Options 3, Section 14(c)(2)(i) to indicate that complex strategies may be executed at a total credit or debit price with one other member organization without giving priority to bids or offers established on the Exchange that are no better than the bids or offers in the individual options series comprising such total credit or debit; provided, however, that **for a Complex Order with a conforming ratio**, if any of the bids or offers established on the Exchange consist of a Public Customer Order, the price of at least one leg of

the complex strategy must trade at a price that is better than the corresponding bid or offer on the Exchange by at least one minimum trading increment for the series as defined in Options 3, Section 3. The Exchange notes that a Complex Order with a non-conforming ratio would be executed in accordance with Options 3, Section 14(d)(4) as proposed herein. As discussed above, the Complex Order priority rules will continue to protect Public Customer interest on the single-leg order book.

The Exchange proposes to add “with conforming ratios” to Options 3, Section 14(c)(2)(i) to make clear that the Complex Order priority provisions in that rule will continue to apply only to Complex Orders with conforming ratios. In addition, the Exchange proposes to amend Options 3, Section 14(c)(2)(i) to state that a Complex Order with a non-conforming ratio will be executed in accordance with proposed Options 3, Section 14(d)(4). Options 3, Section 14(c)(2)(i) as amended will state,

Complex Options Strategies may be executed at a total credit or debit price with one other member organization without giving priority to bids or offers established on the Exchange that are no better than the bids or offers in the individual options series comprising such total credit or debit; provided, however, that for a Complex Order with a conforming ratio, if any of the bids or offers established on the Exchange consist of a Public Customer Order, the price of at least one leg of the complex strategy must trade at a price that is better than the corresponding bid or offer on the Exchange by at least one minimum trading increment for the series as defined in Options 3, Section 3. A Complex Order with a non-conforming ratio will be executed in accordance with (d)(4) below.

The Exchange’s proposal does not extend the Complex Order priority in Options 3, Section 14(c)(2)(i) afforded to Complex Orders with ratios equal to or greater than one-to-three and less than or equal to three-to-one to these larger-ratio Complex Orders. Rather, the Exchange proposes to adopt new Options 3, Section 14(d)(4) which will state that Complex Orders with a non-conforming ratio will not be executed at a net price that would cause any option component of the complex strategy to be executed: (A) ahead of a Public Customer order

at the BBO on the single-leg order book; or (B) at a price that is through the NBBO.⁸ Therefore, a Complex Order with any ratio less than one-to-three or greater than three-to-one may be executed at a net price only if each leg of the Complex Order betters the corresponding bid (offer) of a Public Customer Order(s) on the single-leg order book, and is not at a price that is through the NBBO. These requirements are consistent with the rules of other option exchanges that process Complex Orders in the same ratios.⁹

Further, the Exchange proposes to not permit the option leg or stock leg of a Complex Order with a non-conforming ratio to trade outside of the NBBO. The Exchange proposes to state at the end of Options 3, Section 14(d)(4), “The stock leg of a Stock-Option Strategy or a Stock-Complex Strategy with a non-conforming ratio may not trade through the NBBO.” The Exchange would continue to permit a Complex Order with a non-conforming ratio to trade provided the options legs (and stock legs) are at or within the NBBO. This proposal does not prevent Complex Orders with a conforming ratio from trading outside the NBBO provided the trade complies with Exchange rules and, where applicable, the Qualified Contingent Trade Exemption from Rule 611 of Regulation NMS.¹⁰

⁸ MIAX 518(c)(1)(iv) notes that a complex order will not be executed at a net price that would cause any option component of the complex strategy to be executed at a price of zero. Cboe 5.33(f)(2)(A)(i) states that the system does not execute a complex order at a net price that would cause any component of the complex strategy to be executed at a price of zero. The Exchange notes that no Simple Order or Complex Order, with a conforming ratio or a non-conforming ratio, may execute at a price of zero, therefore, the Exchange is not adopting this portion of the rule similar to MIAX and Cboe since this limitation applies throughout all of the exchange’s rules.

⁹ See MIAX Rule 518(c)(1)(vi), Cboe Exchange Rule 5.33(f)(2)(A)(iv)(b), and BOX Exchange LLC (“BOX”) Rule 7240(b)(2)(iii).

¹⁰ See ISE Supplementary Material .07 to Options 3, Section 14. A Qualified Contingent Trade is a transaction consisting of two or more component orders, executed as agent or principal, that satisfy the six elements in the Commission’s order exempting Qualified Contingent Trades (“QCTs”) from the requirements of Rule 611(a). See 17 CFR 242.611(a). Trading centers must establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs. See Securities Exchange Act Release Nos. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (“QCT Exemptive Order”). See also Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006). The QCT Exemption applies to trade-throughs caused by the execution of an order involving one or more NMS stocks that are components of a “qualified contingent trade.” As described

The Exchange also proposes to amend its Complex Price Improvement XL (“PIXL”) mechanism to adopt rule text that describes new scenarios that arise as a result of the Exchange processing Complex Orders with non-conforming ratios, which would cause a PIXL Auction to early terminate prior to the end of the time period designated by the Exchange pursuant to Options 3, Section 13(b)(2). Currently, pursuant to Options 3, Section 13(b)(2),

(2) Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (A) through (F) below, with the PIXL Order executing pursuant to paragraph (2)(A) through (D) below.

(A) The end of the Auction period;

(B) For a PIXL Auction (except if it is a Complex Order), any time the internal PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order;

(C) For a Complex Order PIXL Auction, upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs;

(i) When a marketable Complex Order on the opposite side of the Complex PIXL Order ends the exposure period, it will participate in the execution of the Complex PIXL Order at the price that is mid-way between the best counter-side interest and the same side best bid or offer on the Complex Order Book or net price from Exchange’s best bid or offer on the individual legs, whichever is better, so that both the marketable Complex Order and the Complex PIXL Order receive price improvement. Transactions will be rounded, when necessary, to the \$0.01 increment that favors the Complex PIXL Order.

(ii) When a marketable Complex Order on the same side of the PIXL Complex Order ends the exposure period, the Complex PIXL Order will trade pursuant to Options 3, Section 13(b)(8).

more fully in the QCT Exemptive Order, a qualified contingent trade is a transaction consisting of two or more component orders, executed as principal or agent, where: (1) At least one component order is an NMS stock; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (*e.g.*, the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) the Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

(D) For a Complex Order PIXL Auction, upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the PIXL Complex Order that would cause the execution of the Complex PIXL Order to be at or outside of the best bid or offer on the Complex Order Book;

(E) For a Complex Order PIXL Auction, when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order Book or bids and offers for the individual legs; or

(F) Any time there is a trading halt on the Exchange in the affected series.

The Exchange proposes to provide additional language in light of the addition of non-conforming ratios to note that the exposure period will automatically terminate if upon receipt of a Public Customer Order, eligible to rest on the single-leg order book, that would lock or cross any component of a non-conforming ratio Complex PIXL Order. Further, the exposure period will automatically terminate if the NBBO for any option component of a non-conforming ratio Complex PIXL Order updates to a price that would cause that component of the Complex PIXL Order to be executed at a price that is through the NBBO for that series. These provisions ensure that a Complex PIXL Order will always receive the best price on the Exchange while simultaneously preserving the integrity of the single-leg market by preventing a component of an order with a non-conforming ratio from trading ahead of Public Customer interest or trading through the NBBO.

The Exchange proposes to add rule text to Supplementary Material .11 to Options 3, Section 11 to make clear that a Complex Strategy entered into a Complex PIXL may be in a conforming ratio as defined in Options 1, Section 1(b)(13) or a non-conforming ratio as defined in Options 1, Section 1(b)(31)¹¹ The Exchange also proposes to add rule text to Options 3,

¹¹ See proposed Supplementary Material .02 to Options 3, Section 11 and proposed Supplementary Material .11 to Options 3, Section 13.

Section 12(b) and (d) to make clear that a Complex Customer Cross Order and a Complex Qualified Contingent Cross may be entered into the System in a conforming ratio as defined in Options 1, Section 1(b)(13) or a non-conforming ratio as defined in Options 1, Section 1(b)(31).¹²

In contrast, a Complex Strategy entered into a Complex Facilitation Mechanism or Complex Solicited Order Mechanism must be in a conforming ratio as defined in Options 1, Section 1(b)(13). The Exchange proposes rule text at Supplementary Material .02 to Options 3, Section 11 to make this restriction for these Complex Order auctions clear to member organizations. At this time, the Exchange is not permitting non-conforming ratios in every auction. The Exchange is offering non-conforming ratios in the limited auctions noted above. The Exchange notes that it will evaluate the market demand from member organizations with respect to non-conforming ratios and determine at a later date whether to permit non-conforming ratios in additional auctions.

The Exchange proposes to amend Options 3, Section 16(b) to provide that the Strategy Protections in Options 3, Section 16(b)¹³ would not apply to a complex strategy with a non-conforming ratio. Options 3, Section 16(b) includes a Vertical Spread Protection, a Calendar Spread Protection, a Butterfly Spread Protection and a Box Spread Protection. These strategies require a member organization to execute these strategies in certain ratios that would not be achieved with non-conforming ratios.¹⁴ Other risk protections remain available for complex

¹² See proposed Options 3, Section 12(b) and (d).

¹³ Options 3, Section 16(b) includes a Vertical Spread Protection, a Calendar Spread Protection, a Butterfly Spread Protection and a Box Spread Protection.

¹⁴ A Vertical Spread and Calendar Spread Protection both require a contract ratio with one long option and one short option (1:1). A Butterfly Spread Protection requires one long option, two short options and one long option (1:2:1). Finally, a Box Spread Protection requires one long option: one short option: one long option: one short option (1:1:1:1).

strategies with non-conforming ratios.

The proposal will provide an additional venue for executing non-conforming Complex Orders electronically. The Exchange believes this increased efficiency would increase execution opportunities for Complex Orders with investment strategies that do not fit within the three-to-one ratio requirement.

Floor Rules

The Exchange proposes to add rule text to make clear a Floor Complex Qualified Contingent Cross Order and a Floor Complex Customer Cross Order¹⁵ may be entered into the System in a conforming ratio as defined in Options 1, Section 1(a)(13) or a non-conforming ratio as defined in Options 1, Section 1(a)(31).¹⁶ Today, a Floor Complex Qualified Contingent Cross Order and a Floor Complex Customer Cross Order entered as a Remote FBMS Transaction¹⁷ may only be entered in conforming ratios. Floor Brokers have an option to utilize the Options

¹⁵ The Exchange proposes to add the word “Floor” before Customer Cross Order and Complex Customer Cross Order in Options 8, Section 2(a)(10), Section 30(f) and (g) and Section 32 (f) and (g). The Exchange also proposes to remove the sentence that states, only Complex Customer Cross Orders with a conforming ratio as defined in Options 1, Section 1(b)(13) will be accepted in Options 8, Section 30(g).

¹⁶ See proposed Options 8, Section 30(e) and (f).

¹⁷ The term “Remote FBMS Transaction” is a transaction effected by a Floor Broker, while not physically present on the Trading Floor, by submitting limit, market or stop orders pursuant to Options 8, Section 28(g), Customer Cross Orders pursuant to Options 8, Section 30(f), Complex Customer Cross Orders pursuant to Options 8, Section 30(g), and Floor Qualified Contingent Cross Orders pursuant to Options 8, Section 30(e) to the electronic order book, through FBMS. In order to conduct Remote FBMS Transactions, unless exempt from such requirements in accordance with Supplementary Material .01 to Options 10, Section 5 or Phlx General 4, Rule 1230, Floor Brokers are subject to the following regulatory requirements: (1) compliance with branch office requirements as described in Supplementary Material .01 to Options 10, Section 5, as well as supervision of such branch office as described in Phlx General 9, Section 20; and (2) compliance with applicable registration requirements described in Phlx General 4. All uses of FBMS involving open outcry must be conducted while physically present on the Trading Floor. See Options 8, Section 2(a)(10).

Floor Based Management System (“FBMS”),¹⁸ remotely,¹⁹ to enter certain orders²⁰ that do not require exposure in open outcry. Allowing a Floor Complex Qualified Contingent Cross Order and a Floor Complex Customer Cross Order to be entered in conforming and non-conforming ratios similar to the way that Phlx members and member organizations enter such orders electronically is consistent with the Act and removes impediments to and perfect the mechanism of a free and open market and a national market system.

Implementation

The Exchange proposes to implement the amendments to the Options 8 Rules on the 30th day after the date of filing or earlier, if the waiver of the operative delay is granted.

The remainder of the amendments would be implemented on or before December 20, 2027. The Exchange will issue an Options Trader Alert to all members and member organizations with the exact date of implementation.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²¹ in general, and furthers the objectives of Section 6(b)(5) of the Act,²² in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect

¹⁸ FBMS, an order management system, is the gateway for the electronic execution of equity, equity index and U.S. dollar-settled foreign currency option orders represented by Floor Brokers on the Exchange's Options Floor. Floor Brokers contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker to FBMS, which creates an electronic audit trail. The execution of orders to Phlx's electronic trading system also occurs via FBMS. The FBMS application is available on hand-held tablets and stationary desktops.

¹⁹ Utilizing FBMS while not physically present on the Trading Floor would be considered remote access.

²⁰ Qualified Contingent Cross Orders, Customer Cross Orders and Complex Customer Cross Orders are paired orders that do not require exposure in open outcry and are considered Remote FBMS Transactions pursuant to Options 8, Section 2(a)(10).

²¹ 15 U.S.C. 78f(b).

²² 15 U.S.C. 78f(b)(5).

the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The Exchange believes the proposed changes will increase opportunities for execution of non-conforming ratio Complex Orders by providing another exchange to trade non-conforming Complex Orders electronically, which will benefit all investors. The Exchange also believes that the proposed rule change is designed to not permit unfair discrimination among market participants, as all market participants will be able to trade non-conforming ratio Complex Orders, and the priority rules will apply to non-conforming ratio Complex Orders of all market participants.

The Exchange currently permits only a Complex Options Strategy where the ratio between the sizes of the options components of a Complex Order is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).²³ Additionally, today, the Exchange permits only a Stock-Option Strategy and Stock-Complex Strategy with a ratio no greater than eight-to-one (8.00) where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.²⁴

²³ See Options 3, Section 14(a)(1). A Complex Options Strategy is the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. Only those Complex Options Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

²⁴ See Options 3, Section 14(a)(2) and (3). A Stock-Option Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg. A Stock-Complex Strategy is the purchase or sale of a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of a Complex Options Strategy on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, where the ratio represents the total number

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and benefit investors, because it will allow market participants to execute Complex Strategies with option components in ratios greater than three-to-one or less than one-to-three (“non-conforming ratios” as proposed herein) on the Exchange. In addition, as proposed, Stock-Option Orders with non-conforming ratios will also be permitted. The proposed rule change will further remove impediments to and perfect the mechanism of a free and open market and a national market system, as other options exchanges permit the trading of Complex Orders, including Stock-Options Orders, with any ratio.²⁵

The proposed rule change will continue to protect Public Customer Order interest on the single-leg order book in the same manner as it does today, as all Complex Orders with a conforming ratio will continue to be executed on the Exchange without change. The proposed rule change has no impact on the priority of Complex Orders with a conforming ratio, as Complex Orders with a conforming ratio will continue to be required to improve the price of a leg of the Complex Order for which a Public Customer Order is resting at the BBO in the single-leg order book,²⁶ and thus will continue to protect Public Customer Orders in the single-leg order book. Additionally, the Exchange will not allow any component of a Complex Order with a non-

of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

²⁵ See *supra* note 9.

²⁶ See Options 3, Section 14(c)(2)(i). The Exchange is amending Options 3, Section 14(c)(2)(i) to indicate that Options 3, Section 14(c)(2)(i) applies only to conforming ratio Complex Orders.

conforming strategy to execute ahead of a Public Customer resting at the BBO in the single-leg order book.²⁷

Additionally, the Exchange believes the proposed amendment to Options 3, Section 14(c)(2)(i) indicating that Options 3, Section 14(c)(2)(i) applies solely to conforming ratio complex strategies, will make clear that this provision does not apply to non-conforming ratio Complex Orders. Further, a Complex Order with a non-conforming ratio would be executed in accordance with Options 3, Section 14(d)(4), as proposed herein. The requirements in proposed Options 3, Section 14(c)(2)(i) and Options 3, Section 14(d)(4) are consistent with the Complex Order priority rules of another options exchange.²⁸

The Exchange's proposal to not permit the option leg or stock leg of a Complex Order with a non-conforming ratio to trade outside of the NBBO is consistent with the Act because the Exchange would continue to permit a Complex Order with a non-conforming ratio to trade provided the options legs (and stock legs) are at or within the NBBO. This proposal does not prevent Complex Orders with a conforming ratio from trading outside the NBBO provided the trade complies with Exchange rules and, where applicable, the Qualified Contingent Trade Exemption from Rule 611 of Regulation NMS.²⁹

Additionally, the Exchange believes that including additional scenarios that will early terminate a Complex PIXL Auction promotes just and equitable principles of trade and removes impediments to a free and open market by providing greater transparency concerning the operation of Exchange functionality. These provisions ensure that a non-conforming ratio

²⁷ See Options 3, Section 14(c)(2)(i). See proposed Options 3, Section 14(d)(4)(B). In addition, proposed Options 3, Section 14(d)(4) provides that no component of a non-conforming ratio Complex Order will be executed at a price that is through the NBBO.

²⁸ See Cboe Rule 5.33(f)(2)(A)(iv).

²⁹ See supra note 10.

Complex PIXL Order will always receive the best price on the Exchange while simultaneously preserving the integrity of the single-leg market and preventing any component leg of a non-conforming ratio Complex Order from trading ahead of a Public Customer Order or through the NBBO.³⁰

The Exchange's proposal to amend Options 3, Section 16(b) to state that the Strategy Protections in Options 3, Section 16(b) will not apply to complex strategies with non-conforming ratios is consistent with the Act because the Vertical Spread Protection, Calendar Spread Protection, Butterfly Spread Protection, and Box Spread Protection each apply to strategies that have ratios less than three-to-one (i.e., they are strategies with a conforming ratio).³¹ Accordingly, the proposed change to Options 3, Section 16(b) will provide clarity to the Exchange's rules. Other risk protections remain available for complex strategies with non-conforming ratios.

The Exchange believes that its proposal is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by enhancing its System and providing investors with an additional venue to trade non-conforming ratio Complex Orders electronically. The Exchange's proposal should provide market participants with trading opportunities more closely aligned with their investment or risk management strategies.

³⁰ See Options 3, Section 13(e)(4)(iv)(E) and (F).

³¹ A Vertical Spread and Calendar Spread Protection both require a contract ratio with one long option and one short option (1:1). A Butterfly Spread Protection requires one long option, two short options and one long option (1:2:1). Finally, a Box Spread Protection requires one long option: one short option: one long option: one short option (1:1:1:1).

Further, amending Options 8, Section 30(e) and (g) to permit Floor Complex Qualified Contingent Cross Orders and Floor Complex Customer Cross Orders (as proposed to be renamed) to be entered in a conforming ratio as defined in Options 1, Section 1(a)(13) or a non-conforming ratio as defined in Options 1, Section 1(a)(31) similar to these same orders that are entered electronically is consistent with the Act. Permitting both members and member organizations to enter electronic and floor Complex Qualified Contingent Cross Orders and Complex Customer Cross Orders in either a conforming or non-conforming ratio promotes just and equitable principles of trade and removes impediments to and perfect the mechanism of a free and open market and a national market system by offering members and member organizations various means to execute their orders on Phlx.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange does not believe that its proposed rule change will impose any burden on intra-market competition as the proposed amendments would apply equally to all member organizations of the Exchange. Further, any member organization of the Exchange may submit a Complex Order with a non-conforming ratio.

The Exchange does not believe that its proposed rule change will impose any burden on inter-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, rather the Exchange believes that its proposal will promote inter-market competition. Other options exchanges provide for the electronic trading of Complex Orders comprised solely of option components with ratios that are less than one-to-three or greater than three-to-one, and

allow these orders to be priced and executed in one cent increments.³² In addition, other options exchanges permit the trading of Stock-Option Orders with non-conforming ratios.³³ As such, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange does not believe the proposed amendment to indicate that the priority provision to Options 3, Section 14(c)(2)(i) applies solely to conforming ratios to Complex Orders imposes any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act because Complex Orders for all member organizations will be treated in the same manner. The Exchange will not allow any component of a Complex Order with a non-conforming ratio to execute ahead of a Public Customer resting at the BBO in the single-leg order book.³⁴ Further, no Member would be able to utilize the QCT Exemption for a Stock-Options Order or a Stock-Complex Strategy that has a non-conforming ratio.

Complex Orders submitted by member organizations with conforming ratios will continue to be handled by the System without change. The non-conforming ratio Complex Orders of all member organizations will be handled uniformly by the System as described in this proposal. The Exchange does not believe that this proposed change imposes any burden on inter-market competition because other options exchange currently trade non-conforming ratio Complex Orders including Stock-Option Orders with non-conforming ratios.³⁵

³² See supra note 7.

³³ See supra note 9.

³⁴ See Options 3, Section 14(c)(2)(i). See proposed Options 3, Section 14(d)(4)(B). In addition, proposed Options 3, Section 14(d)(4) provides that no component of a non-conforming ratio Complex Order will be executed at a price that is through the NBBO.

³⁵ See supra note 9.

Additionally, the Exchange does not believe that its new proposed scenarios to terminate a Complex PIXL Auction imposes any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposed changes are designed to add additional detail to the rules to further clarify the operation of Exchange functionality and to minimize the potential for confusion. These provisions will apply to the Complex Orders of all member organizations. The Exchange does not believe that this proposed change imposes any burden on inter-market competition because other options exchanges would be free to adopt similar rules for early terminating their auctions.

The Exchange's proposal to not offer the Strategy Protections in Options 3, Section 16(b) to a complex strategy with a non-conforming ratio does not impose an undue burden on intra-market competition because these risk protections will not be available for any member or member organization.

The Exchange's proposal to not offer the Strategy Protections in Options 3, Section 16(b) to a complex strategy with a non-conforming ratio does not impose an undue burden on inter-market competition because other options markets may similarly elect to offer or not offer certain risk protections to certain types of options orders.

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 Act³⁶ and Rule 19b-4(f)(6) thereunder.³⁷

A proposed rule change filed under Rule 19b-4(f)(6)³⁸ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),³⁹ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay with respect to the proposed changes to Options 8 that would allow members to enter non-conforming ratio Floor Complex Qualified Contingent Cross (“QCC”) Orders and Floor Complex Customer Cross Orders. The Exchange states that waiver of the operative delay with respect to these orders would provide members with various means for executing non-conforming ratio Floor Complex QCC Orders and Floor Complex Customer Cross Orders on the Exchange. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Waiver of the operative delay would allow the Exchange to immediately permit members to execute non-conforming ratio Complex QCC Orders and Complex Customer Cross Orders on the floor as well as electronically, thereby providing members with additional flexibility in handling these orders. Accordingly, the Commission hereby waives the operative delay and designates the

³⁶ 15 U.S.C. 78s(b)(3)(A)(ii).

³⁷ 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, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

³⁸ 17 CFR 240.19b-4(f)(6).

³⁹ 17 CFR 240.19b-4(f)(6)(iii).

proposed rule changes to allow non-conforming ratio Floor Complex QCC Orders and Floor Complex Customer Cross Orders operative upon filing.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-Phlx-2026-37 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-2026-37. 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-2026-37 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.⁴⁰

Sherry R. Haywood,
Assistant Secretary.

⁴⁰ 17 CFR 200.30-3(a)(12).