

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic Comments

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-MIAX-2025-18 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-MIAX-2025-18. 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 submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be

available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also 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-MIAX-2025-18 and should be submitted on or before May 12, 2025.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵³

Sherry R. Haywood,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-102862; File No. SR-Phlx-2025-17]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality

April 15, 2025.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 3, 2025, Nasdaq PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("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 is filing a rule change in connection with a technology migration. Specifically, the Exchange proposes to adopt: (1) Legging Order functionality identical to ISE and MRX Options 3, Section 7(k); (2) Complex Order functionality identical to ISE and

MRX Options 3, Section 14; and (3) Complex Order Risk Protections identical to ISE and MRX Options 3, Section 16. With this proposal, the Exchange would amend rule text in the following Options 3 rules related to Complex Order functionality: Section 7, Types of Orders and Order and Quote Protocols; Section 9, Trading Halts; Section 14, Complex Orders; Section 15, Simple Order Risk Protections; and Section 16, Complex Order Risk Protections. The Exchange also proposes to amend rule text in Options 5, Section 4, Order Routing and Options 8, Section 32, Types of Floor-Based (Non-System) Orders. Finally, the Exchange proposes to amend certain definitions and citations in Options 1, Section 1, Definitions; Options 2, Section 1, Application for Approval as an SQT, RSQT, or RSQTO and Assignment in Options; Options 4C, Section 2, Definitions, and Section 5, Series of U.S. Dollar-Settled Foreign Currency Options Contracts Open for Trading; and Options 7, Section 1, General Provisions.

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the 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

Purpose

In connection with a technology migration to an enhanced Nasdaq, Inc. ("Nasdaq") functionality that will result in higher performance, scalability, and more robust architecture, the Exchange intends to align all complex order functionality on Phlx to Nasdaq ISE, LLC ("ISE") and Nasdaq MRX, LLC ("MRX") complex order functionality. Specifically, the Exchange proposes to

⁵³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

adopt: (1) Legging Order functionality identical to ISE and MRX Options 3, Section 7(k); (2) Complex Order functionality identical to ISE and MRX Options 3, Section 14; and (3) Complex Order Risk Protections identical to ISE and MRX Options 3, Section 16. With this proposal, the Exchange would amend rule text in the following Options 3 rules related to Complex Order functionality: Section 7, Types of Orders and Order and Quote Protocols; Section 9, Trading Halts; Section 14, Complex Orders; Section 15, Simple Order Risk Protections; and Section 16, Complex Order Risk Protections. The Exchange also proposes to amend rule text in Options 5, Section 4, Order Routing and Options 8, Section 32, Types of Floor-Based (Non-System) Orders. Finally, the Exchange proposes to amend certain definitions and citations in Options 1, Section 1, Definitions; Options 2, Section 1, Application for Approval as an SQT, RSQT, or RSQTO and Assignment in Options; Options 4C, Section 2, Definitions, and Section 5, Series of U.S. Dollar-Settled Foreign Currency Options Contracts Open for Trading; and Options 7, Section 1, General Provisions. Each change will be described below.

Legging Order Functionality

The Exchange proposes to amend the Legging Order type currently located at Options 3, Section 7(b)(10) that provides,

Legging Order. A Legging Order is a Limit Order on the regular order book in an individual series that represents one leg of a two-legged Complex Order (which improves the cPBBO) that is to buy or sell an equal quantity of two options series resting on the CBOOK. Legging Orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging Orders are not routable and are Limit Orders with a time-in-force of DAY, as they represent an individual component of a Complex Order.

(A) A Legging Order may be automatically generated for one leg of a Complex Order at a price: (i) that matches or improves upon the best Phlx displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer (other than Legging Orders). Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. Similarly, the particular Complex Order Strategy must be available for trading.

(B) A Legging Order will not be created: (i) at a price that locks or crosses the best bid or offer of another exchange, (ii) if there is an auction on either side or a Posting Period under Options 3, Section 15 regarding Acceptable Trade Range on the same side in progress in the series, (iii) the price of the Complex Order is outside of the ACE

Parameter of paragraph (i), (iv) if there is already a Legging Order in that series on the same side of the market at the same price (unless it has priority based on the participant type, under existing Exchange rules), or (v) for a Complex Order if the generated Legging Order would immediately cause resting Legging Orders to be removed pursuant to section (f)(iii)(C)(4)(ix) below. Legging Orders may be generated and executed in an increment other than the minimum increment for that series and will be ranked on the order book at its generated price and displayed at a price that is rounded to the nearest minimum increment for that series. Two Legging Orders relating to the same Complex Order can be generated, but only one of those can execute as part of the execution of a particular Complex Order.

(C) A Legging Order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a Legging Order is executed, the other leg of the Complex Order will be automatically executed against the displayed best bid or offer on the Exchange and any other Legging Order based on that Complex Order will be removed.

(D) A Legging Order is automatically removed from the regular order book: (i) if the price of the Legging Order is no longer at the Exchange's displayed best bid or offer on the regular Limit Order book, (ii) if execution of the Legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the Exchange's best displayed bid or offer on the regular Limit Order book (other than another Legging Order), (iii) if the Complex Order is executed in full or in part, (iv) if the Complex Order is cancelled or modified, (v) if the price of the Complex Order is outside the ACE Parameter of paragraph (i), (vi) upon receipt of a Qualified Contingent Cross Order which includes a component in which there is a Legging Order, an order that will trigger an auction under Exchange rules in a component in which there is a Legging Order (whether a buy order or a sell order), or pursuant to Options 3, Section 13(f) a PIXL Order for the account of a public customer paired with an order for the account of a public customer, (vii) if a Legging Order is generated by a different Complex Order in the same leg at a better price or the same price for a participant with a higher priority, (viii) if a Complex Order is marketable against the cPBBO where a Legging Order is present and has more than one leg in common with the existing Complex Order that generated the Legging Order, (ix) if a Complex Order becomes marketable against multiple Legging Orders, (x) if a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO where a Legging Order is present but cannot be executed due to insufficient size in at least one of the components in the cPBBO, or (xi) when the Legging Order is on the book at a price which is not at the minimum price increment and which is more aggressive than the same side PBBO, and an away market moves to lock the PBBO (which is also the NBBO).

The Exchange proposes to relocate Options 3, Section 7(b)(10) to Options 3, Section 7(k) and expand and amend the description of Legging Orders to add detail to describe the current System functionality and describe changes to the functionality. The proposed functionality of Legging Orders is identical to the functionality in ISE and MRX Options 3, Section 7(k).

Generally, the Exchange proposes to amend the phrase "regular limit order book" throughout Options 3, Section 7(k) to instead state "single-leg limit order book" to conform the rule text to the order book description in ISE and MRX Options 3, Section 7(k).

With respect to the first paragraph of Options 3, Section 7(k), in order to make the rule text identical to ISE and MRX Options 3, Section 7(k), the Exchange proposes to remove the words "(which improves the cPBBO)," add "resting on the top of the Complex Order Book" and replace the term "CBOOK" with "Exchange's Complex Order Book". These changes are non-substantive and are meant to harmonize the language in Phlx's Legging Order rule to that of ISE and MRX. Further, the Exchange proposes to amend the last sentence of Options 3, Section 7(k) which currently states, "Legging Orders are not routable and are Limit Orders with a time-in-force of DAY, as they represent an individual component of a Complex Order." The Exchange would instead provide, "Legging Orders are not routable and have a TIF of Day." The Exchange believes the first sentence of Options 3, Section 7(k) specifies that Legging Orders are Limit Orders. All Legging Orders are Day Orders.

The Exchange proposes to add a new second paragraph to Options 3, Section 7(k), which is identical to ISE and MRX Options 3, Section 7(k), to specifically explain the way the System will generate a Legging Order. The Exchange proposes to state,

The System will evaluate whether Legging Orders may be generated (1) when a Complex Options Order enters the Complex Order Book, and (2) after a time interval (to be determined by the Exchange, not to exceed 1 second) when the NBBO or Exchange best bid or offer in any component of a Complex Options Order changes. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty. Legging Orders are treated as having no Public Customer or Market Maker capacity on the single-leg order book, regardless of being generated from Public Customer or Market Maker Complex Options Orders.

The Exchange proposes to make clear that the System will evaluate whether Legging Orders may be generated, which occurs at the time a Complex Options Order³ enters the Complex Order Book and after a time interval (to be determined by the Exchange, not to exceed 1 second)⁴ when the NBBO or Exchange best bid or offer in any component of a Complex Options Order changes. This is the manner in which the System operates today. The Exchange proposes to state that it may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders, and cease the creation of additional Legging Orders, to maintain a fair and orderly market in times of extreme volatility or uncertainty. This rule text currently exists in Phlx Options 3, Section 14(f)(iii)(C).⁵ This limitation assists the Exchange in managing the number of Legging Orders generated to ensure that Legging Orders do not negatively impact the Exchange's System capacity and performance so that the Exchange may maintain a fair and orderly market in times of extreme volatility or uncertainty. Of note, the Exchange does not limit the generation of Legging Orders on the basis of the entering member or member organization or the member category of the order (*i.e.*, Professional or Public Customer).

Finally, the Exchange proposes to provide that Legging Orders are treated as having no Public Customer capacity or Market Maker capacity on the single leg order book, regardless of being generated from Public Customer or Market Maker Complex Options Orders. A Legging Order is handled in the same manner as other orders on the single-leg order book except as otherwise provided in Options 3, Section 7(k), and is executed only after all other executable orders and quotes at the same price are executed in full. When a Legging Order

is executed, the other component of the Complex Order on the Complex Order Book will be automatically executed against the best bid or offer on the Exchange. ISE has identical functionality at Options 3, Section 7(k). Additionally, this rule text at proposed Options 3, Section 7(k)⁶ represents current System functionality. The Exchange believes that a Legging Order, created for the execution of a Complex Order, should not be afforded priority over resting orders and quotes on the single-leg order book, and therefore has determined to protect the priority on the single-leg order book of such resting orders and quotes. Miami International Securities Exchange, LLC ("MIAX") similarly executes a derived order only after all other executable orders and quotes at the same price are executed in full.⁷ ISE and MRX have identical rule text at Options 3, Section 7(k) except that Phlx will allocate executed orders pursuant to its allocation model at Phlx Options 3, Section 10(a)(1)(E). ISE and MRX allocate executed orders pursuant to their allocation models in ISE and MRX Options 3, Section 10. Legging Orders would receive the allocation applicable to all other remaining interest in 10(a)(1)(G).

The Exchange proposes to amend Options 3, Section 7(k)(1) and add the title "Generation of Legging Orders" to describe the contents of the paragraph. The Exchange proposes to amend the rule text which currently states,

[a] Legging Order may be automatically generated for one leg of a Complex Order at a price: (i) that matches or improves upon the best Phlx displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer (other than Legging Orders). Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. Similarly, the particular Complex Order Strategy must be available for trading.

The Exchange proposes to instead provide in Options 3, Section 7(k)(1) that,

[a] Legging Order may be automatically generated for one or both leg(s) of a Complex Options Order resting on top of the Complex Order Book at a price: (i) that matches or

improves upon the best displayed bid or offer on the single-leg limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the single-leg limit order book, excluding Legging Orders. Legging Orders will be generated and executed in the minimum increment for that options series.

The Exchange is proposing to add "or both leg(s)" to the first sentence of proposed Options 3, Section 7(k)(1) (current Options 3, Section 7(b)(10)(A)) to make clear a Legging Order may be generated for each leg of a two-legged Complex Order. This proposed change is new to Phlx. Today, on Phlx, a Legging Order may be automatically generated for one leg of a Complex Order at a price: (i) that matches or improves upon the best Phlx displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer (other than Legging Orders). Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. Similarly, the particular Complex Order Strategy must be available for trading. At this time, the Exchange proposes to align Phlx's Legging Order functionality with ISE and MRX Options 3, Section 7(k)(3) which differs so that they will be identical. ISE and MRX permit two Legging Orders related to the same Complex Options Order to be generated, and both can execute as part of the execution of a particular Complex Options Order. With this change, Phlx notes that Legging Orders may be generated for each leg of a two-legged Complex Orders with the same quantity on both legs. Automatically generating Legging Orders, which will only be executed after all other executable interest at the same price (including non-displayed interest) is executed in full, will provide additional execution opportunities for Complex Orders, without negatively impacting any investors in the single-leg market. In fact, the generation of Legging Orders may enhance execution quality for investors in the single-leg market by improving the price and/or size of the PBBO and by providing additional execution opportunity for resting orders on the single-leg order book. The generation of Legging Orders is fully compliant with all regulatory requirements. In particular, Legging Orders are firm orders that will be displayed at the PBBO. Also, a Legging Order will be automatically removed if it is no longer displayable at the PBBO or if the net price of the Complex Order

³ The Exchange is amending Options 3, Section 14 to define a Complex Options Order in this rule change. The Exchange proposes to generally replace "Complex Order" with "Complex Options Order."

⁴ Today, Phlx's time interval is set to 500 milliseconds and will become 100 milliseconds with the proposal.

⁵ Phlx's rule states, in part, in Options 3, Section 14(f)(iii)(C) that, ". . . The System will evaluate the CBOOK when a Complex Order enters the CBOOK and at a regular time interval, to be determined by the Exchange (which interval shall not exceed 1 second), following a change in the national best bid and/or offer ("NBBO") or Phlx best bid and/or offer ("PBBO") in any component of a Complex Order eligible to generate Legging Orders, to determine whether Legging Orders may be generated. The Exchange may determine to limit the number of Legging Orders generated on an objective basis and may determine to remove existing Legging Orders in order to maintain a fair and orderly market in times of extreme volatility or uncertainty."

⁶ The last sentence of Options 3, Section 7(k) states that a Legging Order are treated as having no Public Customer or Market Maker capacity on the single-leg order book, regardless of being generated from Public Customer or Market Maker Complex Options Orders.

⁷ See MIAX Rule 518(a)(9)(iv). See also Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26) (Order Approving a Proposed Rule Change to Adopt New Rules to Govern the Trading of Complex Orders).

can no longer be achieved. Finally, the generation of Legging Orders is limited in scope, as they may be generated only for Complex Options Orders with two legs. Additionally, as noted herein, the Exchange will closely manage and curtail the generation of Legging Orders to assure that they do not negatively impact system capacity and performance. Today, two legging orders may be generated from the same Complex Options Order on ISE and MRX pursuant to Options 3, Section 7(k)(1).

The addition of “resting on the top of the Complex Order Book” in the first sentence of proposed Options 3, Section 7(k)(1) (current Options 3, Section 7(b)(10)(A)) will make clear that the priority of orders in the Complex Order Book controls with respect to the generation of Legging Orders. The addition of this language is intended to provide greater detail with respect to the generation of Legging Order and reflects current System behavior. The proposed language is identical to ISE and MRX rule text at Options 3, Section 7(k)(1).

The Exchange proposes to amend the second sentence of proposed Options 3, Section 7(k)(1) (current Options 3, Section 7(b)(10)(A)) to add “on the single-leg limit order book” in two places to conform to the language to ISE and MRX Options 3, Section 7(k)(1). Additionally, the Exchange proposes to state “excluding Legging Orders” to the end of the sentence, instead of “other than Legging Orders” to clarify the meaning of the current sentence and harmonize the rule text to ISE and MRX Options 3, Section 7(k)(1). The Exchange notes that the price of a Legging Order is not considered in the PBBO for purposes of determining whether the net price of a Complex Order could be achieved were it to generate a Legging Order. Below is an example of the manner in which the current System calculates the net price and excludes a Legging Order.

Example #1

Assume

Leg A is quoted 4.20 (100) × 4.25 (100)

Leg B is quoted 4.00 (100) × 4.10 (100)

Leg C is quoted 3.80 (100) × 3.90 (100)

Create A–B strategy, ratio of 1. cBBO⁸ for A–B is 0.10 × 0.25

Create B–C strategy, ratio of 1. cBBO for B–C is 0.10 × 0.30

Generation of Legging Orders

Complex Order is entered to Buy A–B 10 @ 0.20

System generates Legging Order on Leg A’s bid @ 4.20

System generates Legging Order on Leg B’s offer @ 4.05

Complex Order is entered to Buy B–C 10 @ 0.20

System generates Legging Order on Leg B’s bid @ 4.00

System generates Legging Order on Leg C’s offer @ 3.90

Executions

If Complex Order B–C sold leg C @ 3.90, it would have to buy Leg B for 4.10 or less to satisfy its net price of 0.20. Given that a Legging Order is available on Leg B’s offer at 4.05, this Legging Order on Leg C would have been able to generate at 3.85 instead of 3.90 if the Legging Order at 4.05 was included in the calculation of possible net execution price, but since it is not, the Legging Order is generated at 3.90 on Leg C’s offer instead of 3.85.⁹

The Exchange is removing the last two sentences of proposed Options 3, Section 7(k)(1)¹⁰ (current Options 3, Section 7(b)(10)(A)) because that concept is being relocated to proposed new paragraph Options 3, Section 7(k)(2) as described below.

Finally, the Exchange proposes to add a sentence to proposed Options 3, Section 7(k)(1) (current Options 3, Section 7(b)(10)(A)) which states, “Legging Orders will be generated and executed in the minimum increment for that options series.” Options 3, Section 3 describes the minimum increments for options traded on MRX. This rule makes clear that the minimum increment rule in Options 3, Section 3 is applicable to Legging Orders. This amendment would modify the current System behavior. Today, on Phlx, Legging Orders may be generated and executed in an increment other than the minimum increment for that series and will be ranked on the order book at its generated price and displayed at a price that is rounded to the nearest minimum increment for that series. The Exchange proposes to modify the behavior to be identical to ISE and MRX Options 3, Section 7(k)(1). Additionally, MIAX Rule 518(a)(9)(iii) similarly provides that MRX’s derived orders will not be created at a price increment less than the minimum established by Rule 510.¹¹

The Exchange proposes to add a title “When Legging Orders Will Not Be Generated” to proposed Options 3, Section 7(k)(2) (current Options 3,

⁹ Furthermore, if a single-leg order arrives to buy for 3.90 on Leg C, the B–C strategy trades with the 4.10 offer of Leg B and the 4.05 Legging Order is removed.

¹⁰ The last two sentences of Options 3, Section 7(k)(1) state, “Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. Similarly, the particular Complex Order Strategy must be available for trading.”

¹¹ MIAX Rule 510 specifies the minimum increments for options traded on MIAX.

Section 7(b)(10)(B)) to describe the contents of the paragraph. The Exchange proposes to state in proposed Options 3, Section 7(k)(2),

When Legging Orders Will Not Be Generated. A Legging Order will not be generated: (i) at a price that locks or crosses the best bid or offer of another exchange, (ii) if there is a complex auction on either side in the Complex Options Strategy, or a single-leg auction on either side in any component of the Complex Options Strategy, or a Posting Period in progress on the same side in the series, pursuant to Options 3, Section 15 regarding Acceptable Trade Range; (iii) if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a); (iv) if there is already a Legging Order in that options series on the same side of the market at the same price; or (v) for Complex Orders with 2 option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in Options 3, Section 14(d)(3)(A); or (vi) if the Exchange has not opened; or a particular option series has not opened or such options series is halted.

This paragraph is intended to describe when Legging Orders will not be generated.

The Exchange proposes to add rule text in proposed Options 3, Section 7(k)(2)(ii) (current Options 3, Section 7(b)(10)(B)(ii)) concerning “if there is an auction on either side or a Posting Period under Options 3, Section 15 regarding Acceptable Trade Range (“ATR”)¹² on the same side in progress in the series.” The Exchange proposes to specifically note “complex auction” and proposes to clarify that it is a complex auction on either side *in the Complex Options Strategy*,¹³ or a *single-leg auction on either side in any component of the Complex Options Strategy*, or a Posting Period *in progress on the same side in the series*. This additional rule text is intended to bring greater clarity to the scenario that would cause a Legging Order not to be generated. The additional language does not amend the current System functionality and is

¹² ATR is a risk protection, that sets dynamic boundaries within which quotes and orders may trade. ATR is designed to guard the System from experiencing dramatic price swings by preventing the immediate execution of quotes and orders beyond the thresholds set by this risk protection.

¹³ As proposed in Options 3, Section 14 below, 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. See proposed Options 3, Section 14(a)(1).

⁸ The cBBO is the net best bid or offer comprised of the best bids and offers of the individual legs of the complex strategy.

identical to ISE and MRX Options 3, Section 7(k)(2)(ii).

Next, the Exchange proposes to amend the provision in Options 3, Section 7(b)(10)(D)(iii) that provides, “the price of the Complex Order is outside of the ACE Parameter of paragraph (i).” The Exchange instead proposes to state, “if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a).” First, the price of the “leg(s)” of the Complex Options Order is what is looked at in this scenario, adding “leg(s)” is intended to clarify the current rule text. Second, the Exchange proposes to amend the complex order risk protections in Options 3, Section 16 to replace them with the identical risk protections that exist on ISE and MRX Options 3, Section 16. With this rule proposal, the Exchange intends to remove the existing ACE Parameter described in Options 3, Section 16(i) and replace it with price limits which are identical to ISE and MRX price limits at Options 3, Section 16(a). The proposed changes to Options 3, Section 16 risk protections for Complex Orders will be explained below in this rule change in the section related to Complex Order risk protections. With this change, in the instance where a Legging Order generated is currently outside the price parameter (because the ABBO has moved), the System will remove the Legging Order that was outside the price limits pursuant to proposed Options 3, Section 7(k)(2)(iii) and will attempt to re-generate a new Legging Order that is within the price limits described in Options 3, Section 16(a) as proposed in Options 3, Section 7(k)(4)(v). This behavior is similar to current Phlx behavior except that the price limits are being replaced with limits utilized on ISE and MRX.

The Exchange proposes removing the phrase “(unless it has priority based on the participant type, under existing Exchange rules)” from Options 3, Section 7(b)(10)(D)(iv). The Exchange notes in the proposed new rule text in the second paragraph of Options 3, Section 7(k) that “Legging Orders are treated as having no Public Customer or Market Maker capacity on the single-leg order book, regardless of being generated from Public Customer or Market Maker Complex Options Orders”. With this proposal, a higher priority Legging Order (*i.e.*, Customer) at the same price as a resting Legging Order would not cause the prior to be removed and replaced with the Customer order, rather Phlx would preserve the prior Legging Order similar to ISE and MRX.

The Exchange proposes to remove current Options 3, Section 7(b)(10)(D)(v) which states,

A Legging Order will not be generated: (v) for a Complex Order if the generated Legging Order would immediately cause resting Legging Orders to be removed pursuant to section (f)(iii)(C)(4)(ix) below. Legging Orders may be generated and executed in an increment other than the minimum increment for that series and will be ranked on the order book at its generated price and displayed at a price that is rounded to the nearest minimum increment for that series.

The Exchange proposes to replace the aforementioned rule text with “A Legging Order will not be generated: (v) for Complex Orders with 2 option legs, where both legs are buying or both legs are selling and both legs are calls or both legs are puts, as described in Options 3, Section 14(d)(3)(A).” Today, ISE and MRX Options 3, Section 14(d)(3)(A) provides for this limitation. The Exchange is proposing to adopt the provision in ISE and MRX Options 3, Section 14(d)(3)(A) into Phlx’s rules, as proposed below. With the addition of this limitation, Phlx proposes to adopt the same rule text within ISE and MRX Options 3, Section 7(k)(2)(v). With this change, Phlx adopts the same Complex Order functionality as ISE and MRX at Options 3, Section 14. The current functionality described in Phlx Options 3, Section 14(f)(iii)(C)(4)(ix) would be removed from Phlx Rules and is therefore no longer applicable.

The Exchange relocated the sentence related to minimum increments in current Options 3, Section 7(b)(10)(B) to the end of proposed Options 3, Section 7(k)(1) and amended it. The rule text that is in current Options 3, Section 7(b)(10)(B) provides, “Two Legging Orders relating to the same Complex Order can be generated, but only one of those can execute as part of the execution of a particular Complex Order” is being relocated to the end of proposed Options 3, Section 7(k)(3) and amended. The Exchange proposes to add a new Options 3, Section 7(k)(2)(vi) that states, “if the Exchange has not opened; or a particular option series has not opened or such options series is halted.” The Exchange has a similar rule in Phlx Options 3, Section 14(f)(iii)(C)(1).¹⁴ Since a complex strategy must be available for trading to generate a Legging Order, the failure of an options series that is a component of

¹⁴ Phlx Options 3, Section 14(f)(iii)(C)(1) states, in part, that Legging Orders will not be generated if the Exchange or a particular option has not opened, is halted or is otherwise not available for trading. MRX believes that not opening and a halt are the two possible scenarios and therefore Phlx’s rule and MRX’s rule are identical in this regard.

the complex strategy to open or a subsequent halt would cause Legging Orders not to generate. The Exchange believes that permitting both Legging Orders to execute as part of the execution of a particular Complex Options Order will allow more Complex Orders to execute while the price of the leg(s) will continue to be bounded by the price limits described in Options 3, Section 16(a).¹⁵ By way of example,

Example #2

Assume:

Complex A–B strategy, ratio of 1:1
Complex 2A–B strategy, ratio of 2:1
MM Quote for leg A 4.20 (100) × 4.50 (100)
MM Quote for leg B 4.00 (100) × 4.10 (100)

Leg Generation:

Complex Order to Buy A–B 10 @ 0.45
System generates a Legging Order on leg A’s bid @ 4.45
System generates a Legging Order on leg B’s offer @ 4.05

Execution:

Complex Order to Sell 2A–B 5 @ 4.85
2A–B Order trades with Legging Order on leg A 10 @ 4.45
2A–B Order trades with the Legging Order on leg B 5 @ 4.05
A–B trades with MM Quote on leg B 5 @ 4.00

The Exchange proposes to add the title “Execution of Legging Orders” to describe the contents of proposed Options 3, Section 7(k)(3), or current Options 3, Section 7(b)(10)(C). As noted above, the Exchange relocated the sentence in current Options 3, Section 7(b)(10)(B) that provided, “Two Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order” to the end of proposed Options 3, Section 7(k)(3).

The Exchange proposes to add the title “Removal of Generated Legging Orders” to describe the contents of proposed Options 3, Section 7(k)(4), or current Options 3, Section 7(b)(10)(D). At the end of proposed Options 3, Section 7(k)(4)(i) or current Options 3, Section 7(b)(10)(D)(i) the Exchange proposes to add “or is at a price that

¹⁵ Proposed Options 3, Section 16(a) provides that, as provided in Options 3, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO on the opposite side for the options series or any stock component, as applicable (“Do-Not-Trade-Through” or “DNTT”).

locks or crosses the best bid or offer of another exchange.” The Exchange is rewording the sentence at Options 3, Section 7(b)(D)(xi) that states, “. . . when the Legging Order is on the book at a price which is not at the minimum price increment and which is more aggressive than the same side PBBO, and an away market moves to lock the PBBO (which is also the NBBO).” Phlx would remove a Legging Order if the ABBO locks that order; this behavior is not changing. If the Legging Order is at a price that is no longer at the displayed best bid or offer on the single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange, the Legging Order will be removed pursuant to proposed Options 3, Section 7(k)(4)(i). This behavior is identical with functionality described at ISE and MRX Options 3, Section 7(k)(4)(i).

Current Phlx Options 3, Section 7(b)(10)(D)(ii) currently states, “A Legging Order is automatically removed from the regular order book: . . . (ii) if execution of the Legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the Exchange’s best displayed bid or offer on the regular Limit Order book (other than another Legging Order) . . .”. The rule text language at current Phlx Options 3, Section 7(b)(10)(D)(ii) differs from the rule text at ISE and MRX Options 3, Section 7(k)(4). The Exchange proposes to amend the rule text at proposed Phlx Options 3, Section 7(k)(4) to make the language identical to ISE and MRX Options 3, Section 7(k)(4) by stating, “A Legging Order is automatically removed from the single-leg limit order book if: . . . (ii) execution of the Legging Order would no longer achieve the net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the single-leg limit order book, excluding other Legging Orders . . .”.

Current Phlx Options 3, Section 7(b)(10)(D)(iii) currently states, “A Legging Order is automatically removed from the regular order book: . . . (iii) if the Complex Order is executed in full or in part.”. The rule text language at current Phlx Options 3, Section 7(b)(10)(D)(iii) differs from the rule text at ISE and MRX Options 3, Section 7(k)(4). The Exchange proposes to make the rule text at Phlx Options 3, Section 7(b)(10)(D)(iii) identical to the ISE and MRX rule text in Options 3, Section 7(k)(4). The Exchange proposes to amend the rule text at proposed Phlx Options 3, Section 7(k)(4) to make the language identical to ISE and MRX Options 3, Section 7(k)(4) by stating, “A

Legging Order is automatically removed from the single-leg limit order book if: . . . (iii) the Complex Options Order is executed in full or in part on the Complex Order Book . . .”.

Current Phlx Options 3, Section 7(b)(10)(D)(v) currently states, “A Legging Order is automatically removed from the regular order book: . . . (v) if the price of the Complex Order is outside the ACE Parameter of paragraph (i) . . .”. The Exchange instead proposes to state in proposed Options 3, Section 7(k)(2)(iv), “A Legging Order is automatically removed from the single-leg limit order book if: . . . if the price of the leg(s) of a Complex Options Order is outside of the price limits described in Options 3, Section 16(a) . . .”. First, the price of the “leg(s)” of the Complex Options Order is what is looked at in this scenario; adding “leg(s)” is intended to clarify the current rule text. Second, the Exchange proposes to amend the complex order risk protections in Options 3, Section 16 to replace them with the identical risk protections that exist on ISE and MRX Options 3, Section 16. Similar to proposed Options 3, Section 7(k)(2), the Exchange intends to remove the existing ACE Parameter described in Options 3, Section 16(i) and replace it with price limits which are identical to ISE and MRX price limits at Options 3, Section 16(a). The proposed changes to Options 3, Section 16 risk protections for Complex Orders will be explained below in this rule change in the section related to Complex Order risk protections.

Under current Options 3, Section 7(b)(1)(vi) a Legging Order is removed from the order book upon receipt of Qualified Contingent Cross (“QCC”) Order which includes a component with a Legging Order and upon receipt of a Public Customer to Public Customer (“C-to-C”) cross order, which can be accomplished through a PIXL auction pursuant to Options 3, Section 13(f). Similar to ISE and MRX, the Exchange does not believe it is necessary to remove a Legging Order upon receipt of a QCC or C-to-C order because both a QCC or C-to-C order trade immediately as a two-sided order without an auction timer and do not interact with the order book. Also, Legging Orders have no priority in the System (even if generated from a Public Customer Complex Order or Market Maker Complex Order).

Similar to ISE and MRX Options 3, Section 7(k)(2)(vi), Phlx will continue to remove a Legging Order if the System initiates a complex auction on either side in the Complex Options Strategy, or the System initiates a single-leg auction on either side in any component of the

Complex Options Strategy. Today, the Phlx rule notes in current Options 3, Section 7(b)(10)(D)(vi) that “. . . an order that will trigger an auction under Exchange rules in a component in which there is a Legging Order (whether a buy order or a sell order).” The Exchange is proposing to amend the wording of this sentence in proposed Phlx Options 3, Section 7(k)(2)(vi) to conform the rule text to ISE and MRX Options 3, Section 7(k)(2)(vi).

Finally, the Exchange proposes to not include in Options 3, Section 7(k)(3) the rule text in current Options 3, Section 7(b)(10)(D)(viii)–(xi). First, current Options 3, Section 7(b)(10)(D)(viii) states that a Legging Order will be removed from the regular book, “. . . if a Complex Order is marketable against the cPBBO where a Legging Order is present and has more than one leg in common with the existing Complex Order that generated the Legging Order.” With this proposal, Phlx will permit a Complex Order to trade with two Legging Orders at the same time pursuant to proposed Options 3, Section 7(k)(3).¹⁶ Accordingly, current Options 3, Section 7(b)(10)(D)(viii) will no longer be applicable and the Exchange proposes to exclude this provision from Options 3, Section 7(k)(3). Proposed Phlx Options 3, Section 7(k)(3) is identical to ISE and MRX Options 3, Section 7(k)(3).

Second, the Exchange proposes to exclude from Options 3, Section 7(k)(2) the rule text in current Options 3, Section 7(b)(10)(D)(ix) that states that a Legging Order will be removed from the regular order book, “. . . if a Complex Order becomes marketable against multiple Legging Orders.” Instead, proposed Options 3, Section 7(k)(3) will permit a Complex Order to trade with two Legging Orders at the same time. Accordingly, the rule text in current Options 3, Section 7(b)(10)(D)(ix) will no longer be applicable. The proposed Phlx rules text at Options 3, Section 7(k)(2) and (3) is identical to ISE and MRX Options 3, Section 7(k)(2) and (3).

Third, the Exchange proposes to exclude from Options 3, Section 7(k)(2) the rule text in current Options 3, Section 7(b)(10)(D)(x) that states that a Legging Order will be removed from the regular order book, “. . . if a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO where a Legging Order is present but cannot be executed due to insufficient size in at least one of the

¹⁶ Options 3, Section 7(k)(3) states in the last sentence that, “[t]wo Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order.”

components in the cPBBO.” The Exchange is excluding this text from proposed Options 3, Section 7(k)(2) because it is unnecessary with these proposed changes. The proposed Phlx rule text at Options 3, Section 7(k)(2) is identical to ISE and MRX Options 3, Section 7(k)(2).

To illustrate the reason for removal, the Exchange utilized the below example.

Assume the following:

Exchange BBO Quote Leg A: 4.20 (100) × 4.50 (100)

Exchange BBO Quote Leg B: 4.00 (100) × 4.10 (100)

A–B strategy, ratio of 1:1

2A–B strategy, ratio of 2:1

Complex Order in A–B is entered: Buy 1 @ 0.45

Generates a legging order on leg A’s Bid 1 @ 4.45

Generates a legging order on leg B’s Offer 1 @ 4.05

If the Complex Order in 2A–B is entered as Sell 1 @ 4.85, the Complex Order could not trade due to insufficient size on Leg A that would be needed to satisfy the 2:1 ratio. This Legging Order could however rest on the Complex Order Book and the Legging Orders from the A–B Buy order would not be removed. This example illustrates that there is no need to remove the automatically generated Legging Orders if a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO where a Legging Order is present but cannot be executed due to insufficient size in at least one of the components in the cPBBO.

Fourth, the Exchange proposes to exclude from Options 3, Section 7(k)(2) the rule text in current Options 3, Section 7(b)(10)(D)(xi) that states that a Legging Order will be removed from the regular order book, “. . . when the Legging Order is on the book at a price which is not at the minimum price increment and which is more aggressive than the same side PBBO, and an away market moves to lock the PBBO (which is also the NBBO).” Today, Phlx generates Legging Orders at non-minimum price increments and displays at the closest inferior price increment as provided for in Options 3, Section 4.¹⁷ Today, Phlx would re-price the Legging

Order to avoid locking and crossing an away market. With the proposed amendment, Phlx will amend its rule text to adopt identical System behavior to ISE and MRX and would no longer re-price a quote, rather Phlx will remove a Legging Order that is at a price that is no longer at the displayed best bid or offer on the single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange. As proposed, Options 3, Section 7(k)(4)(i) would provide that a Legging Order is automatically removed from the single-leg limit order book if: . . . the price of the Legging Order is no longer at the displayed best bid or offer on the single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange. Proposed Options 3, Section 7(k)(4)(i) is identical to ISE and MRX Options 3, 7(k)(4)(i).

Options 3, Section 14

As part of its technology migration, the Exchange proposes to replace Phlx’s Complex Order functionality in Options 3, Section 14, in its entirety, with Complex Order functionality identical to ISE and MRX Options 3, Section 14. Today, ISE and MRX Complex Order functionality is harmonized. Phlx is the only other Nasdaq affiliated options market to offer Complex Order functionality among the six Nasdaq affiliated options markets. A goal of the technology migration is to harmonize rules to permit market participants who are members of multiple Nasdaq affiliated options markets to realize the benefits of common functionality across its options markets. The proposal will harmonize the way Nasdaq affiliated markets handle Complex Orders as the Phlx Complex Order functionality would be identical to the ISE and MRX Complex Order functionality.

Phlx Complex Order Functionality

Definitions

Phlx Options 3, Section 14(a) defines a variety of terms including: Complex Order,¹⁸ Complex Order Strategy,¹⁹ PBBO,²⁰ cPBBO,²¹ NBBO²², cNBBO,²³ Participant,²⁴ Phlx market

¹⁸For purposes of the electronic trading of Complex Orders, a Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A Complex Order can also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share (“ETF”)) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery. Stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components. Member organizations may only submit Complex Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such Complex Orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or The Nasdaq Stock Market (“Nasdaq”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Execution Services, LLC (“NES”) in order to trade Complex Orders containing a stock/ETF component; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative (“QSR”) arrangement with NES in order to trade Complex Orders containing a stock/ETF component. The maximum number of components of a Complex Order is six. A stock-option order may include up to five options components (legs). See Options 3, Section 14(a)(i).

¹⁹The term “Complex Order Strategy” means a particular combination of components of a Complex Order and their ratios to one another. The Exchange will calculate both a bid price and an offer price for each Complex Order Strategy based on the current PBBO (as defined below) for each component of the Complex Order. Each Complex Order Strategy will be assigned a strategy identifier by the System. See Options 3, Section 14(a)(ii).

²⁰The term “PBBO” means the Phlx Best Bid and/or Offer for individual option series. See Options 3, Section 14(a)(iii).

²¹The term “cPBBO” means the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such 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)(iv).

²²The term “NBBO” means the National Best Bid and/or Offer for an individual option series. See Options 3, Section 14(a)(v).

²³The 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).

²⁴The term “participant” means SQTs, RSQTs, Floor Market Makers, Lead Market Makers and non-Phlx market makers on another exchange; Public Customers, Professionals, Firms, and non-market-maker off-floor broker-dealers; and Floor Brokers

¹⁷Options 3, Section 4(b)(6) provides that a quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) as non-displayed and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

maker²⁵ and Phlx electronic market maker,²⁶ Do Not Auction,²⁷ Conforming ratio,²⁸ and Firm.²⁹ Phlx proposes to replace these defined terms with definitions that are identical to ISE and MRX Options 3, Section 14(a) and is used in the proposed rule. Specifically, the Exchange proposes to add the following definitions: “Complex Options Strategy” for complex strategies that have only options components, “Stock-Option Strategy” for complex strategies that have a stock component and a single options component,³⁰ and “Stock-Complex Strategy” for complex strategies that have a stock component and multiple options components.³¹ The Exchange notes that the terms that are being removed are not relevant to

using the Options Floor Based Management System. See Options 3, Section 14(a)(vii).

²⁵ The term “Phlx market maker” means SQTs, RSQTs, Lead Market Makers and Floor Market Maker. See Options 3, Section 14(a)(vii).

²⁶ The term “Phlx electronic market maker” means SQTs, RSQTs and Lead Market Makers. See Options 3, Section 14(a)(vii).

²⁷ The term “Do Not Auction” means that this Complex Order is not “COLA-eligible,” as defined in (d)(ii)(B) below and thus prevents it from triggering a Complex Order Live Auction, pursuant to paragraph (e) below, or joining one that is in progress. (A) DNA Orders received prior to the opening or when the Complex Order Strategy is not available for trading will be cancelled. (B) DNA Orders are cancelled if not immediately executed. (C) DNA Orders will initially only be available for Complex Orders consisting of more than two options components or where the underlying security is a component; once the Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, DNA Orders will also become available for Complex Orders consisting of two options components. See Options 3, Section 14(a)(viii).

²⁸ 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 3, Section 14(a)(ix).

²⁹ The term “Firm” means a broker-dealer trading for its own (proprietary) account that is: a member of The Options Clearing Corporation (“OCC”) or maintains a Joint Back Office (“JBO”) arrangement with an OCC member. Unless otherwise specified, Firms are included in the category of non-market-maker off-floor broker-dealer. See Options 3, Section 14(a)(x).

³⁰ By definition, Stock-Option Strategies will have only one option leg and one stock leg.

³¹ Currently, Phlx accepts up to 6 option legs on Complex Orders, and Stock-Tied Complex Orders may have up to 5 option legs in addition to one stock leg. Currently, ISE and MRX accepts Complex Options Strategies with up to 10 options legs, and Stock-Option Strategies and Stock-Complex Strategies with up to 9 options legs in addition to one stock leg. Phlx would be modified to accept the same number of legs as ISE.

the proposed rule text or are described in proposed Options 3, Section 14, or would retain the meaning of the term as defined in Options 1, Definitions. Further, the Exchange proposes to remove the description of Complex Orders at Options 3, Section 7(b)(12) and the description of Stock-Option Orders at Options 3, Section 7(b)(13). These terms relate to the current Complex Order functionality at Options 3, Section 14 which is being replaced as described herein.

Specifically, the Exchange proposes to provide that,

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.

Further, the Exchange proposes to provide that,

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.

Finally, the Exchange proposes to provide that,

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, 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 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.

The applicable number of legs would be determined by Phlx on a class-by-

class basis independently for Complex Options Strategies and Stock-Complex Strategies. At proposed Options 3, Section 14(a)(4), the Exchange proposes to note that the term “complex strategy” includes Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies. Finally, the Exchange proposes to state at Options 3, Section 14(a)(5) that the terms “Complex Options Order,” “Stock-Option Order,” and “Stock-Complex Order” refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. Also, the term “Complex Order” includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders. The proposed new definitions are identical with the terms at ISE and MRX Options 3, Section 14(a) and will be utilized throughout proposed new Phlx Options 3, Section 14. The proposed terms are intended to provide greater clarity to the Options 3, Section 14 handling of Complex Order functionality.

Current Phlx Options 3, Section 14(b) notes that Complex Orders may be entered in increments of \$0.01 with certain “time in force” designations and as certain order types with certain contingencies. Proposed new Phlx Options 3, Section 14(c)(1) will address minimum increments which would continue to be expressed in one cent (\$0.01) increments and would provide,

Minimum Increments. 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.

Phlx proposes to also address minimum increments in new Supplementary .02 to Options 3, Section 3, similar to ISE Supplementary Material .0 to Options 3, Section 3. Phlx proposes to state, “Notwithstanding any other provision of this Rule, complex strategies may be traded in the increments described in Options 3, Section 14(c)(1).” This proposed rule text would be identical to rule text at proposed Options 3, Section 14(c)(1)

and provide more transparency to the minimum increment.³²

Current Options 3, Section 14(a)(i), (ii) and (iii) contain certain restrictions on what order types certain Phlx participants may enter. With this proposal, all market participants will continue to be able to enter Complex Orders as is the case on ISE and MRX. Today, Options 3, Section 14(b)(i)³³ describes “off-floor broker-dealers.” Phlx removed this definition from its rules,³⁴ therefore, the restrictions for off-floor broker dealers are no longer applicable. The Exchange proposes to remove the references to the restrictions on off-floor broker dealers, with respect to Complex Orders in Options 3, Section 14(b)(ii)³⁵ with this proposal. Market participants from another exchange may enter Complex Orders on Phlx through a member or member organization utilizing any of the order types that would be available for Complex Orders which are described below similar to ISE and MRX.

Additionally, current Options 3, Section 14(b)(ii) provides,

SQTs, RSQTs, Floor Market Makers, Lead Market Makers and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as IOC only. In addition, for Complex Orders consisting of more than two options components or where the underlying security is a component, SQTs, RSQTs, non-SQT Market Makers, Lead Market Makers and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as Day orders; once the

³² The Exchange also proposes to renumber Phlx Supplementary Material .02-.04 to Options 3, Section 3.

³³ Options 3, Section 14(b)(i) provides, “Public Customers and Professionals and non-market maker off-floor broker-dealers may enter the Complex Orders listed in paragraph (a) above as Day, Good Til Cancelled (“GTC”) or Immediate or Cancel (“IOC”) as those terms are defined in Options 3, Section 7(c).”

³⁴ SR-Phlx-2024-71 removes the rule text at Options 3, Section 14(b)(i) describing an “off-floor broker-dealer. See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71). SR-Phlx-2024-71 is effective but not yet operative. SR-Phlx-2024-71 would be operative at the same time as this rule change as they are both part of the same technology migration.

³⁵ Current Options 3, Section 14(b)(ii) provides, “SQTs, RSQTs, Floor Market Makers, Lead Market Makers and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as IOC only. In addition, for Complex Orders consisting of more than two options components or where the underlying security is a component, SQTs, RSQTs, non-SQT Market Makers, Lead Market Makers and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as Day orders; once the Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, Day orders will also become available for Complex Orders consisting of two options components.”

Exchange has fully rolled out its enhanced Complex Order System, which will be announced in an Options Trader Alert, Day orders will also become available for Complex Orders consisting of two options components.

Phlx defines a Market Maker at Options 1, Section 1(b)(28) as an SQT or a RSQT who enters quotations for his own account electronically into the System. A Lead Market Maker is a Market Maker on Phlx.³⁶ Phlx proposes to utilize the defined term “Market Maker” in proposed Options 3, Section 14, rather than the individual terms (SQT, RSQT, and Lead Market Maker) to refer to electronic Market Makers that are subject to Options 3, Section 14. The Exchange notes that all electronic Market Makers will continue to be subject to the specified quoting obligations in Options 2, Section 5.³⁷

Floor Market Makers³⁸ are Phlx market participants located on Phlx’s trading floor that are subject to the rules in Options 8 which govern Phlx’s trading floor. Phlx floor participants enter into open outcry to announce Complex Orders for execution. Those orders are processed in the same manner as all other orders announced in open outcry. Phlx electronic market participants may utilize the electronic Complex Orders described in proposed Options 3, Section 14, while Phlx Floor Market Makers are subject to the rules in Options 8. Therefore, Floor Market Maker are not currently subject to Options 3, Section 14, and would not be subject to proposed Options 3, Section 14. Non-Phlx market makers on another exchange, also known as away market makers, are not Phlx Market Makers and, therefore, are not subject to Phlx quoting obligations and Phlx’s other rules applicable to Phlx Market Makers.

The Exchange will no longer restrict certain market participants to enter the Complex Orders as IOC only as noted in Options 3, Section 14(b)(ii). Proposed Options 3, Section 14 will permit all Members to enter any complex order listed in Options 3, Section 14(a) without restriction.

³⁶ A “Lead Market Maker” means a member who is registered as an options Lead Market Maker pursuant to Options 2, Section 12(a). A Lead Market Maker includes a Remote Lead Market Maker which is defined as a Lead Market Maker in one or more classes that does not have a physical presence on the Exchange’s Trading Floor and is approved by the Exchange pursuant to Options 2, Section 11. See Options 1, Section 1(b)(27).

³⁷ Options 2, Section 5 specifies the continuous quoting obligations for SQTs and RSQTs, as well as the quoting obligations for Lead Market Makers.

³⁸ The term “Floor Market Maker” is a Market Maker who is neither an SQT nor an RSQT. A Floor Market Maker may provide a quote in open outcry. See Options 8, Section 2(a)(4).

The rule text currently in Options 3, Section 14(b)(iii),³⁹ as well as other rules that refer to Floor Market Makers or Floor Brokers, is no longer necessary as the Exchange proposes to amend Options 8, Section 32 to describe the types of Complex Orders that would be available to be utilized on Phlx’s trading floor in open outcry in light of the changes to Options 3, Section 14.⁴⁰ The Exchange notes that Phlx market participants located on Phlx’s trading floor are subject to the rules in Options 8 which govern Phlx’s trading floor. Phlx floor participants enter into open outcry to announce Complex Orders for execution. Those orders are processed in the same manner as all other orders announced in open outcry. Phlx electronic permit holders may utilize the electronic Complex Orders described in proposed Options 3, Section 14.

As noted above, with the proposed new Complex Order rules, all Phlx members and member organizations will be able to enter all Complex Order types.

As noted in Options 3, Section 14(b)(iv), member organizations will continue to mark the stock/ETF component of a Complex Order “long,” “short,” or “short exempt” in compliance with Regulation SHO under the Exchange Act, however Regulation SHO would be described in proposed new Options 3, Section 16(e), which will be discussed below.

Order Types

Today, Phlx may determine to make certain order types and/or times-in-force available on a class or System basis as described in current Options 3, Section 7(b). Pursuant to proposed Options 3, Section 14(b)(v), Complex Orders may be submitted as: All-or-None Orders, Cancel-Replacement Orders, Directed Orders, Limit Orders or Market Orders as those terms are defined in Options 3, Section 7(b).

Phlx proposes to replace the aforementioned order types with order types that are identical those offered on ISE and MRX at Options 3, Section 14(b). Phlx proposes to state at proposed Options 3, Section 14(b) that unless otherwise specified, the definitions in the proposal have the same meaning

³⁹ Current Options 3, Section 14(b)(iii) states, “Floor Brokers using the Options Floor Based Management System may enter the Complex Orders listed in paragraph (a) above as Day, GTC or IOC on behalf of Public Customers, Professionals and non-market-maker off-floor broker-dealers, and as IOC only on behalf of SQTs, RSQTs, Floor Market Makers, Lead Market Makers, non-Phlx market makers on another exchange and Firms.”

⁴⁰ The Options 8 rules relate to floor trading. ISE and MRX do not have a trading floor.

contained in Options 3, Section 7.⁴¹ Similar rule text appears in current Phlx Options 3, Section 7(b). As is the case today, the Exchange may determine to make certain order types and/or times-in-force available on a class or System basis. Phlx proposes to adopt the following Complex Orders or designations: Market Complex Order,⁴² Limit Complex Order,⁴³ All-Or-None Complex Order,⁴⁴ Attributable Complex Order,⁴⁵ Complex Customer Cross Order,⁴⁶ Qualified Contingent Cross Complex Order,⁴⁷ Day Complex Order,⁴⁸ Fill-or-Kill Complex Orders,⁴⁹ Immediate-or-Cancel Complex Orders,⁵⁰ Opening Only Complex Order,⁵¹ Good-

⁴¹ SR-Phlx-2024-71 proposed to adopt the same single-leg order types in Options 3, Section 7 that currently exist on ISE and MRX at Options 3, Section 7. See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71). SR-Phlx-2024-71 is effective but not yet operative. SR-Phlx-2024-71 would be operative at the same time as this rule change as they are both part of the same technology migration.

⁴² A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the Complex Order Book unless designated as fill-or-kill or immediate-or-cancel. See proposed Options 3, Section 14(b)(1).

⁴³ A Limit Complex Order is a Complex Order to buy or sell a complex strategy that is entered with a limit price expressed as a net purchase or sale price for the components of the order. See proposed Options 3, Section 14(b)(2).

⁴⁴ A Complex Order may be designated as an All-or-None Order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order. See proposed Options 3, Section 14(b)(3).

⁴⁵ A Market or Limit Complex Order may be designated as an Attributable Order as provided in Options 3, Section 7(h). See proposed Options 3, Section 14(b)(4).

⁴⁶ A Complex Customer Cross Order is comprised of a Public Customer Complex Order to buy and a Public Customer Complex Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Options 3, Section 12(b). See proposed Options 3, Section 14(b)(5).

⁴⁷ A Complex Options Order may be entered as a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j). Qualified Contingent Cross Complex Orders will trade in accordance with Options 3, Section 12(d). See proposed Options 3, Section 14(b)(6).

⁴⁸ A Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered. See proposed Options 3, Section 14(b)(7).

⁴⁹ A Complex Order may be designated as a Fill-or-Kill Order that is to be executed in its entirety as soon as it is received and, if not so executed, cancelled. See proposed Options 3, Section 14(b)(8).

⁵⁰ A Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. See proposed Options 3, Section 14(b)(9).

⁵¹ An Opening Only Complex Order is a Complex Order that may be entered for execution during the Complex Opening Process described in Supplementary Material .04 to Options 3, Section 14. Any portion of the order that is not executed during the Complex Opening Process is cancelled. See proposed Options 3, Section 14(b)(10).

Till-Date Complex Order,⁵² Good-Till-Cancel Complex Order,⁵³ Exposure Complex Order,⁵⁴ Exposure Only Complex Order,⁵⁵ Cancel-Replacement Complex Order,⁵⁶ Complex PIXL Order,⁵⁷ and Complex Directed Order.⁵⁸ These order types are identical to those at ISE and MRX Options 3, Section 14(a). With this proposal, Phlx will offer more order types than today.

Current Phlx Options 3, Section 14(c)(i) provides that a Complex Order is eligible to trade on the System only

⁵² A Good-Till-Date Complex Order is an order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the Complex Order, or the expiration of any individual series comprising the order. See proposed Options 3, Section 14(b)(11).

⁵³ A Good-Till-Cancel Complex Order is an order to buy or sell that remains in force until the order is filled, canceled or any series of the order expires; provided, however, that a Good-Till-Cancel Complex Order will be cancelled in the event of a corporate action that results in an adjustment to the terms of any series underlying the Complex Order. See proposed Options 3, Section 14(b)(12).

⁵⁴ An Exposure Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule if eligible, or entered on the Complex Order Book if not eligible. Any unexecuted balance of an Exposure Complex Order remaining upon the completion of the exposure process will be entered on the Complex Order Book. See proposed Options 3, Section 14(b)(13).

⁵⁵ An Exposure Only Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule if eligible, or cancelled if not eligible. Any unexecuted balance of an Exposure Only Complex Order remaining upon the completion of the exposure process will be cancelled. See proposed Options 3, Section 14(b)(14).

⁵⁶ A Cancel-Replacement Complex Order shall mean a single message for the immediate cancellation of a previously received Complex Order and the replacement of that Complex Order with a new Complex Order. If the previously placed Complex order is already filled partially or in its entirety, the replacement Complex Order is automatically canceled or reduced by the number of contracts that were executed. The replacement Complex Order will retain the priority of the cancelled Complex order, if the order posts to the Complex Order Book, provided the price is not amended or size is not increased. See proposed Options 3, Section 14(b)(15).

⁵⁷ A Complex PIXL Order is an order entered into the Complex Price Improvement Mechanism as described in Options 3, Section 13. See proposed Options 3, Section 14(b)(18).

⁵⁸ A Complex Directed Order is a Complex Order for which a member organization has designated a Directed Market Maker as described in Options 2, Section 10. The component leg(s) of a Complex Order with a Directed Order instruction may allocate pursuant to Options 3, Section 10(a)(1)(C) when the Complex Directed Order legs into the single-leg market provided that the Directed Market Maker is quoting at the better of the internal BBO or the NBBO for a component leg(s) of the Complex Directed Order at the time the Complex Directed Order is received. A Directed Market Maker will not receive an allocation pursuant to Options 3, Section 10(a)(1)(C) for a component leg(s) of a Complex Directed Order if the Directed Market Maker is not quoting at the better of the internal BBO or the NBBO for that leg at the time the Complex Directed Order is received. See proposed Options 3, Section 14(b)(19).

when each options component of the Complex Order is open for trading on the Exchange, and where the underlying security is a component of the Complex Order, such underlying security is open for trading on its primary market. Complex Orders may be executed against the Complex Order Book or placed on the Complex Order Book. This will continue to be true of Phlx's new Complex Order functionality. The Exchange's proposal notes at proposed Options 3, Section 14(c), Applicability of Exchange Rules, that except as otherwise provided in Options 3, Section 14, complex strategies shall be subject to all other Exchange Rules that pertain to orders and quotes generally. Complex Orders may execute against orders and quotes in both the single-leg order book and Complex Order Book.

Current Phlx Options 3, Section 14(c)(i) also provides that certain Complex Orders will be entered into a Complex Order Live Auction (as defined below) either following a Complex Order Opening Process (as defined below) or when a Complex Order improves the cPBBO. Phlx will no longer offer the Complex Order Live Auction. This will be discussed in greater detail below.

Current Phlx Options 3, Section 14(c)(ii) states that Complex Orders will not trade on the System under the following conditions: (A) the Complex Order is received prior to the opening on the Exchange of any options component of the Complex Order; (B) during an opening rotation for any options component of the Complex Order; (C) during a trading halt for any options component of the Complex Order; (E) when an automatic removal of quotes occurs in any options component of the Complex Order that represents all or a portion of the PBBO; or (F) when the Exchange's market for any options component of the Complex Order is disseminated pursuant to Options 3, Section 6(a)(ii)(B).

With this proposal, Phlx will continue to not trade Complex Orders prior to the opening. Proposed Supplementary Material .04 to Options 3, Section 14 notes that with respect to the Complex Opening Process, after each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies, Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Options 3, Section 14. The Complex Opening Process will be discussed in greater detail below. The Exchange notes that it will continue to not trade during a

trading halt as specified in proposed Supplementary Material .04 to Options 3, Section 14 and proposed Supplementary Material .01(d) to Options 3, Section 14. The Exchange will continue to not trade when quotes are automatically removed in an option component as the quotes will not be available as described in proposed Options 3, Section 16. The Exchange proposes to remove the rule text within Options 3, Section 6 as that rule is being removed in another rule change.⁵⁹

Current Phlx Options 3, Section 14(c)(iii)(A) discusses spread priority. The current rule provides:

Spread Priority. (A) Complex Orders consisting of a conforming ratio may be executed at a total credit or debit price without giving priority to individual bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that if any of the bids or offers established in the marketplace consist of a Public Customer order, at least one option leg is executed at a better price than the established bid or offer for that option contract by the minimum trading increment and no option leg is executed at a price outside of the established bid or offer for that option contract.

(B) Where a Complex Order in a conforming ratio consists of the underlying security (stock or ETF) and one options leg, such options leg has priority over bids or offers established in the marketplace, except over bids or offers established by Public Customer orders. However, where a Complex Order in a conforming ratio consists of the underlying stock or ETF and more than one options leg, the options legs have priority over bids and offers established in the marketplace, including Public Customer orders, if at least one options leg improves the existing market for that option.

(C) Options 5, Section 2 shall apply to all Complex Order executions. Accordingly, Complex Orders with conforming ratios are eligible for the exception contained in Options 5, Section 2(b)(viii) and therefore may trade through the NBBO for that option.

(D) This paragraph (c) shall apply to all Complex Order executions, whether executed in a Complex Order Live Auction or otherwise.

Phlx proposes to delete Options 3, Section 14(c)(iii)(A) and replace it with proposed Options 3, Section 14(c)(2) which would provide,

Complex Order. Complex strategies will not be executed at prices inferior to the best net price achievable from the best Exchange bids and offers for the individual legs. Notwithstanding the provisions of Options 3, Section 10:

(i) a 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.

(ii) The option leg of a Stock-Option Strategy has priority over bids and offers for the individual options series established on the Exchange by Professional Orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Public Customer Orders.

(iii) The options legs of a Stock-Complex Strategy are executed in accordance with subparagraph (c)(2)(i) above.

The Exchange notes that with this proposal the spread priority will remain the same. The proposed rule text will be identical to ISE and MRX Options 3, Section 14(c)(2). The Exchange notes that with respect to the trading floor, the Exchange proposes to amend Options 3, Section 24(j) to clarify that the spread type priority would consist of Spread-Type Orders consisting of a conforming ratio.⁶⁰ The Exchange also proposes to amend Options 8, Section 32 to indicate that the Complex Order types that may be utilized on the trading floor at Options 3, Section 14(a)(1)–(3) also may be used on the trading floor.⁶¹

Phlx proposes to include the following text concerning internalization in proposed Options 3, Section 14(c)(3).

Complex Orders represented as agent may be executed (i) as principal as provided in Options 3, Section 22(b), or (ii) against orders solicited from member organizations and non-member organization broker-dealers as provided in Options 3, Section 22(c). The exposure requirements of Options 3, Section 22(b) or (c) must be met on the Complex

⁶⁰ The Exchange proposes to add the definition of a conforming order at Options 1, Section 1(b)(13) as described in this proposal. As proposed, 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.

⁶¹ These order types may be utilized on the trading floor in addition to other order types that may be utilized on the trading floor as specified in proposed Options 8, Section 32.

Order Book unless the order is executed in one of the mechanisms described in Options 3, Sections 12 and 13.

While Complex Orders on Phlx are subject to these rules today in Options 3, Section 22, current Phlx Options 3, Section 14 does not specifically refer to these rules. Accordingly, proposed Options 3, Section 14(c)(3) will make clear that the internalization rules will apply to Complex Orders in the same manner that they apply to all other orders executed on Phlx.

Complex Opening

Phlx’s current complex opening process will be replaced with a complex opening process identical to ISE and MRX at Supplementary .05 to Options 3, Section 14. The Exchange notes that Complex Options Strategies will open faster with the proposed new process and the boundary prices for determining the opening price will differ as a result.

First, with respect to the process for opening a Complex Orders, today, on Phlx, after trading has opened in each component of a pending Complex Order, or re-opened following a trading halt, the System initiates a Complex Order Opening Process or “COOP.” The System accepts interest for the COOP during a COOP Timer, and at the conclusion of the COOP Timer the System determines the price at which the maximum number of contracts can trade, if any, from the market and marketable limit Complex Orders. Complex Orders received during the COOP Timer will be placed on the CBOOK. Once an options symbol opens pursuant to Options 3, Section 8, Opening Process, for the single-leg book, a COOP can commence. Complex Orders will open at a single price.

Second, with respect to the opening price, today, Phlx opens Complex Orders that are in price range consistent with the ACE Parameter pursuant to Options 3, Section 14(b)(i).⁶² In contrast, with the adoption of the ISE and MRX opening process, Phlx’s System will calculate Boundary Prices at or within which Complex Orders may be executed during the Complex Opening Price Determination based on the NBBO for the individual legs; provided that, if the NBBO for any leg includes a Priority Customer Order on the Exchange, the

⁶² The ACE Parameter is either a percentage or number defined by the Exchange and may be set at a different percentage or number for Complex Orders where one of the components is the underlying security. The ACE Parameter price range is based on the cNBBO at the time an order would be executed. See Options 3, Section 14(b)(i).

⁵⁹ SR–Phlx–2024–71 proposed the removal of Options 3, Section 6. See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR–Phlx–2024–71). SR–Phlx–2024–71 is effective but not yet operative. SR–Phlx–2024–71 would be operative at the same time as this rule change as they are both part of the same technology migration.

System adjusts the Boundary Prices according to subparagraph (c)(2).⁶³

Third, ISE and MRX have an Uncrossing Process described in Supplementary Material .06 to Options 3, Section 14 that occurs, if necessary, immediately after the Opening Process. With this process, the Complex Order Book will be uncrossed using the Complex Uncrossing Process described in Supplementary Material .06(b) to Options 3, Section 14 if a resting Complex Order that is locked or crossed with other interest becomes executable during regular trading or as part of the Complex Opening Process.

As noted above, the Exchange is replacing the current Phlx Complex Opening Process with a new opening process that is identical to the Complex Opening Process on ISE and MRX. Today, current Options 3, Section 14(d) describes Phlx's COOP. Today, Phlx's COOP identifies a price at which the maximum number of contracts can trade on the opening based on interest received in the Complex Order Strategy. Thus, the COOP operates like a traditional opening process for non-Complex Orders (meaning, single leg orders), considering buys and sells, taking all interest into account (without bias toward any participant) to determine which interest is executable and identifying any imbalance.⁶⁴ Specifically, for each Complex Order Strategy, the System takes into consideration all Complex Orders, identifies the price at which the maximum number of contracts can trade and calculates the imbalance, if any. The System accepts pre-opening Complex Orders, and accepts Complex Orders prior to re-opening following a halt in trading on the Exchange. The proposed Complex Opening Process in Supplementary .05 to Options 3, Section 14 will continue to perform similar functions.

Pursuant to current Options 3, Section 14(d)(ii), once trading in each option component of a Complex Order Strategy has opened or reopened following a trading halt for a certain configurable time not to exceed 60 seconds (and none of the conditions described in paragraph (c)(ii) of current Options 3, Section 14 exist), the System will initiate the COOP for that Complex Order Strategy, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening of that

Complex Order Strategy, unless that Complex Order Strategy is already open as a result of another electronic auction process or another electronic auction involving the same Complex Order Strategy is in progress. Following a trading halt, a COOP will be conducted for any Complex Order Strategy that has a Complex Order present or had previously opened prior to the trading halt. The COOP will be conducted in two phases, the "COOP Timer" and the "COOP Evaluation."

With respect to the COOP Timer, current Options 3, Section 14(d)(ii)(A) provides that the Exchange will send a broadcast message indicating that a COOP has been initiated for that Complex Order Strategy. The broadcast message identifies the Complex Order Strategy, the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at which any orders can be executed), and the imbalance side and volume, if any ("Complex Order Opening Auction Notification").⁶⁵ Complex Orders in such a Complex Order Strategy that are received during the COOP Timer and COOP Evaluation reside on the CBOOK.⁶⁶ Complex Orders received prior to the COOP Timer and Complex Orders received during the COOP Timer (other than COOP Sweeps and Complex Order Responses marked as a response) are visible to participants upon receipt.⁶⁷ Complex Orders in a Complex Order Strategy marked as IOC received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. DNA Orders received during a COOP are cancelled and will not participate in the COOP. Complex Orders marked as IOC and DNA Orders received before the initiation of the COOP in that Complex Order Strategy are cancelled and do not participate in the COOP; however, a COOP will occur in that Complex Order Strategy.⁶⁸

Currently, in response to a Complex Order Opening Auction Notification,

⁶³ Pursuant to current Options 3, Section 14(d)(ii)(A), the Complex Order Opening Auction Notification starts a COOP Timer ("COOP Timer"), which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. Participants can submit responses to the Complex Order Opening Auction Notification.

⁶⁴ See current Options 3, Section 14(d)(ii)(A)(3).

⁶⁵ See current Options 3, Section 14(d)(ii)(A)(4).

⁶⁶ See current Options 3, Section 14(d)(ii)(A)(5).

participants may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders in increments of \$0.01 ("Complex Order Response"). Phlx electronic market makers may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more bids and/or offers known as COOP Sweeps.⁶⁹

Today, upon expiration of the COOP Timer, the System conducts a COOP Evaluation to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, considering Complex Orders. The Exchange opens the Complex Order Strategy at that price, executing marketable trading interest, in the following order: first, to Public Customers in time priority; next to Phlx electronic market makers on a pro rata basis; and then to all other participants on a pro rata basis. The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.⁷⁰

At the end of the COOP Timer, no trade may be possible. Current Options 3, Section 4(d)(ii)(C)(1) provides, if at the end of the COOP Timer the System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, all Complex Orders received

⁶⁹ A COOP Sweep is a one-sided electronic order (IOC) entered by a Lead Market Maker or Market Maker through SQF at a particular price submitted for execution against opening trading interest in a particular Complex Order Strategy. See current Options 3, Section 14(d)(ii)(B) and (B)(1)-(3). A Phlx electronic market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in subparagraph (2)) in increments of \$0.01 in response to a Complex Order Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series. Phlx electronic market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The System will use the Phlx electronic market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx electronic market maker's COOP Sweep from that COOP at that price level. COOP Sweeps and Complex Order Responses marked as a response will not be visible to any participant and will not be disseminated by the Exchange. Any COOP Sweeps which remain unexecuted at the end of the COOP Timer once all executions are complete will expire. A Complex Order Response will expire if unexecuted at the end of the COOP Timer once all executions are complete, but a Complex Order submitted during the COOP Timer which is not marked as a response will be available to be traded after the opening of a Complex Order Strategy unless it is marked IOC. Such Complex Order will be placed on the CBOOK if not executed during the opening.

⁷⁰ See current Options 3, Section 14(d)(ii)(C).

⁶³ See proposed Supplementary Material .05 to Options 3, Section 14.

⁶⁴ An imbalance is the number of contracts that cannot be matched with other interest at a particular price.

during the COOP Timer will be placed on the CBOOK.

At the end of the COOP Timer, a trade may be possible. Current Options 3, Section 4(d)(ii)(C)(2) provides, if at the end of the COOP Timer the System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the System, the System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed at the net price without trading through residual interest or the cPBBO or without trading at the cPBBO where there is Public Customer interest at the best bid or offer for any leg, consistent with paragraph (c)(iii).⁷¹ Finally, pursuant to current Options 3, Section 14(d)(ii)(C)(3), the Complex Order Strategy will be open after the COOP even if no executions occur.

To illustrate “if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding)” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10)–3.90 (10).
Complex Order #1: Buy 30 for \$3.79.

⁷¹ If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or Limit Orders on the Limit Order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK. See current Options 3, Section 14(d)(ii)(C)(2).

Complex Order #2: Sell 20 at \$3.56.

COOP Opening execution will be for 20 strategies at a price of \$3.79 because there were more contracts to buy than there were to sell. In this example, while there are multiple price points at which the System can open the same number of contracts, there is only one price point, \$3.79, at which there will be no residual contracts available after the opening process at a price which crosses the opening price. After the System executes 20 strategies at \$3.79, there will remain 10 unexecuted strategies to buy for \$3.79.

If the example were changed slightly such that Complex Order #1 was a market order instead of a limit order, the market order is limited by the cPBBO assuming no customer interest is present, and the COOP execution price for 20 strategies would be \$3.90. The remaining 10 strategies of Complex Order #1 will then leg to the simple market at \$3.90.

To illustrate “if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10)–3.90 (10).
Complex Order #1: Buy 20 for \$3.79.
Complex Order #2: Buy 20 for \$3.77.
Complex Order #3: Buy 20 at \$3.74.
Complex Order #4: Sell 20 at \$3.60.
Complex Order #5: Sell 20 at \$3.62.

COOP Opening execution will be for 40 strategies at a price of \$3.76. The execution price of \$3.76 is derived from the midpoint of the lowest executable bid price of \$3.74 and the next available executable bid price of \$3.77, rounded up to the closest minimum trading increment. In this example, 40 strategies can be opened at multiple price points ranging from \$3.74 up to \$3.77. None of these potential opening prices will cause the unexecuted \$3.74 buy order to be available at a price which crosses the opening price, therefore, the System opens at the midpoint of such prices, \$3.76.

If the example were changed slightly such that Complex Order #1 and Complex Order #2 were market orders instead of a limit orders, the COOP Opening execution price for the 40 strategies would be \$3.82, which is the midpoint of the potential opening prices ranging from \$3.74 to \$3.90.

To illustrate “if the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10)–3.90 (10)
Complex Order #1: Buy 10 for \$3.78
Complex Order #2: Buy 20 for \$3.74
Complex Order #3: Buy 10 at \$3.71
Complex Order #4: Sell 20 at \$3.64
Complex Order #5: Sell 20 at \$3.66

COOP Opening execution will be for 40 strategies at a price of \$3.69. The execution price of \$3.69 is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer price of \$3.66, rounded up to the closest minimum trading increment. If the example were changed slightly such that Complex Order #4 and Complex Order #5 were market orders rather than limit orders, the COOP Opening execution price for the 40 strategies would be \$3.61, which is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer of \$3.50, rounded to the closest minimum trading increment.

If there is any remaining interest after complex interest has traded against other complex interest and there is no component that consists of the underlying security,⁷² such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs.⁷³ If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK.

New Proposal for Opening Process

The Exchange proposes to amend the opening process by adopting proposed Supplementary Material .05 to Options 3, Section 14 which is identical to ISE and MRX Supplementary Material .05 to Options 3, Section 14. The Complex Opening Price Determination is designed to provide an opportunity for

⁷² Complex Orders that are not executable at the opening price, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK.

⁷³ Remaining interest includes Complex Orders that did not execute at the opening price and are therefore on the CBOOK and available to be traded before legging occurs as well as any new interest that may have arrived during the legging process.

members and member organizations to trade complex strategies in a transparent opening rotation at a price that is within the NBBO prices of the individual legs prior to uncrossing the complex strategy in the Complex Uncrossing Process to allow additional interest to participate. The Exchange believes that this new process will allow for additional contracts to be included in the Potential Opening Price calculation leading to better price discovery and more contracts executing as part of the Complex Opening Price Determination process. With this proposal, when the interest does not match the size and there is more than one Potential Opening Price at which the interest may execute, the Exchange would calculate a Potential Opening Price using the mid-point of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. As a result, more options contracts are likely to be executed at better prices than under the current rule.

Proposed Supplementary Material .05(a) of Options 3, Section 14 provides definitions for the Boundary Price,⁷⁴ the Opening Price⁷⁵ and Potential Opening Price.⁷⁶ Pursuant to Supplementary Material .05(b) of Options 3, Section 14, which describes eligible interest, the rule text notes that eligible interest during the Complex Opening Price Determination includes Complex Orders on the Complex Order Book. Bids and offers for the individual legs of the complex strategy are not eligible to participate in the Complex Opening Price Determination. If the best bid for a complex strategy does not lock or cross the best offer, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in proposed Supplementary Material .06(b) to Options 3, Section 14, which will be described below.⁷⁷ If the best bid for a complex strategy locks or crosses the best offer, the System will open the complex strategy as described herein.

Pursuant to the proposed Supplementary Material .05(d)(1) to Options 3, Section 14, the System

⁷⁴ “Boundary Price” is described herein in paragraph (d)(1). See proposed Supplementary Material .05(a)(1) of Options 3, Section 14.

⁷⁵ “Opening Price” is described herein in paragraph (d)(3). See proposed Supplementary Material .05(a)(2) of Options 3, Section 14.

⁷⁶ “Potential Opening Price” is described herein in paragraph (d)(3). See proposed Supplementary Material .05(a)(3) of Options 3, Section 14.

⁷⁷ See proposed Supplementary Material .05(c) of Options 3, Section 14.

calculates Boundary Prices at or within which Complex Orders may be executed during the Complex Opening Price Determination based on the NBBO for the individual legs; provided that, if the NBBO for any leg includes a Public Customer Order on the Exchange, the System adjusts the Boundary Prices according to proposed Supplementary Material .05(c)(2) to Options 3, Section 14.

Pursuant to proposed Supplementary Material .05(d)(2) to Options 3, Section 14, the System will calculate the Potential Opening Price by identifying the price(s) at which the maximum number of contracts can trade (“maximum quantity criterion”) taking into consideration all eligible interest pursuant to proposed Supplementary Material .05(b) to proposed Options 3, Section 14.

Pursuant to the Opening Price Determination in proposed Supplementary Material .05(d)(3) to Options 3, Section 14, when interest crosses and does not match in size, the System will calculate the Potential Opening Price based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the Potential Opening Price when the larger sized interest is offering (bidding) shall be the mid-point of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment; or when interest crosses and is equal in size, the System will calculate the Potential Opening Price based on the mid-point of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed at the Potential Opening Price without trading through residual interest or the Boundary Price or without trading at the Boundary Price where there is Public Customer interest at the best bid or offer for any leg, consistent with proposed paragraph Options 3, Section 14(c)(2).⁷⁸ Executable bids/offers will be bounded by the Boundary Price on the contra-side of the interest, for determination of the Potential Opening Price described herein.⁷⁹

This proposed new Complex Opening Process seeks to maximize the interest

⁷⁸ See proposed Supplementary Material .05(d)(3)(A) of Options 3, Section 14.

⁷⁹ See proposed Supplementary Material .05(d)(3)(B) of Options 3, Section 14.

which is traded during the Complex Opening Price Determination process and deliver a rational price for the available interest at the opening. The Complex Opening Price Determination process maximizes the number of contracts executed during the Complex Opening Process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the Opening Price. In other words, the logic ensures there is no remaining unexecuted interest available at a price which crosses the Opening Price. If multiple prices exist that ensure that there is no remaining unexecuted interest available through such price(s), the opening logic selects the mid-point of such price points. Below are examples.

Example—More Than One Potential Opening Price—Mid-Point of Larger-Sized Interest

“if there is more than one price at which the interest may execute, the Potential Opening Price when the larger sized interest is offering (bidding) is the mid-point of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment”

Assume

Complex Order Strategy: A+B strategy

Quote for Leg A @ 1.75 × 1.95

Quote for Leg B @ 1.75 × 1.95

Boundary Price = 3.50 (10)–3.90 (10)

(Leg A Bid 1.75 + Leg B Bid 1.75 = 3.50)

(Leg A Offer 1.95 + Leg B Offer 1.95 = 3.90)

Complex Order #1: Buy 20 for \$3.79

Complex Order #2: Buy 20 at \$3.73

Complex Order #3: Sell 20 at \$3.60

The Opening Price would be for 20 strategies at a price of \$3.76. The execution price of \$3.76 is derived from the mid-point of the lowest executable bid price of \$3.73 and the next available executable bid price of \$3.79. In this example, 20 strategies can be opened at multiple price points ranging from \$3.73 up to \$3.79. None of these Potential Opening Prices would cause the unexecuted \$3.73 buy order to be available at a price which crosses the Opening Price, therefore, the System opens at the mid-point of such prices, \$3.76. The Opening Price seeks to distribute to the extent possible price improvement to both the bid and offer side of the transaction.

Example—Mid-Point When Interest is Equal In Size

“Provided such crossing interest is equal in size, the System will calculate the Potential Opening Price based on the mid-point of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment”

Complex Order Strategy: A+B strategy

Quote for Leg A @ 1.75 × 1.95 each

Quote for Leg B @ 1.75 × 1.95 each

Boundary Price= 3.50 (10)–3.90 (10)

(Leg A Bid 1.75 + Leg B Bid 1.75 = 3.50)

(Leg A Offer 1.95 + Leg B Offer 1.95 = 3.90)
 Complex Order #1: Buy 10 for \$3.78
 Complex Order #2: Buy 20 for \$3.74
 Complex Order #3: Buy 10 at \$3.71
 Complex Order #4: Sell 20 at \$3.64
 Complex Order #5: Sell 20 at \$3.66

With the proposed amendment, the Opening Price will be for 40 strategies at a price of \$3.69. The execution price of \$3.69 is derived from the mid-point of the lowest executable bid price of \$3.71 and the highest executable offer price of \$3.66, rounded up to the closest minimum trading increment.

If the example were changed slightly such that Complex Order #4 and Complex Order #5 were Market Complex Orders rather than Limit Orders, the Opening Price for the 40 strategies would be \$3.61, which is derived from the mid-point of the lowest executable bid price of \$3.71 and the highest executable offer of \$3.50 (which is the Boundary Price of the sell Market Complex Orders), rounded up to the closest minimum trading increment.

The Exchange notes that executable bids/offers include any interest that could be executed at the net price without trading through residual interest or the Boundary Price, or without trading at the Boundary Price where there is Public Customer interest at the best bid or offer for any leg, consistent with proposed Options 3, Section 14(c)(2).⁸⁰ Further, executable bids/offers would be bounded to the Boundary Price on the contra-side of the interest, for determination of the Opening Price described above when crossing interest is different in size and when crossing interest is equal in size.

Proposed Supplementary .06(a) to Options 3, Section 14 provides for a Complex Uncrossing Process. The Complex Order Book will be uncrossed using the Complex Uncrossing Process described in paragraph (b) below if a resting Complex Order that is locked or crossed with other interest becomes

⁸⁰ Proposed Options 3, Section 14(c)(2) provides, "Complex strategies will not be executed at prices inferior to the best net price achievable from the best ISE bids and offers for the individual legs. Notwithstanding the provisions of Options 3, Section 10: (i) a Complex Options Strategies may be executed at a total credit or debit price with one other Member 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 Priority 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; (ii) the option leg of a Stock-Option Strategy has priority over bids and offers for the individual options series established on the Exchange by Professional Orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders; and (iii) the options legs of a Stock-Complex Strategy are executed in accordance with subparagraph (c)(2)(i).

executable during regular trading or as part of the Complex Opening Process. The proposed rule text is identical to ISE and MRX Supplementary .06(a) to Options 3, Section 14. Complex Strategies are uncrossed using the following procedure: (1) The System identifies the oldest Complex Order among the best priced bids and offers on the Complex Order Book. A Complex Order entered with an instruction that it must be executed at a price that is equal to or better than the national best bid or offer pursuant to paragraph (a) above is considered based on its actual limit or market price and not the price of the national best bid or offer for the component legs. The selected Complex Order is matched pursuant to proposed subparagraph (d)(2)–(3) with resting contra-side interest on the Complex Order Book and, for Complex Option Orders, bids and offers for the individual legs of the complex strategy. The process is repeated until the Complex Order Book is no longer executable.⁸¹

The System will process any remaining Complex Orders, including Opening Only Complex Orders in accordance with the Complex Uncrossing Process described in proposed Supplementary Material .06(b) to Options 3, Section 14. Bids and offers for the individual legs of the Complex Option Order will also be eligible to trade in the Complex Uncrossing Process. If the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price and the complex strategy will open pursuant to the Uncrossing described in proposed Supplementary Material .05(d)(5) of Options 3, Section 14. However, as is the case today, if the bid Boundary Price is higher than the offer Boundary Price, or if no valid Potential Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing process described in proposed Supplementary Material .06(b) of Options 3, Section 14. As noted above, this rule text is identical to ISE and MRX Supplementary Material .06 to Options 3, Section 14.

COLA

Phlx's current Complex Order execution process will be replaced with a process identical to ISE and MRX at Options 3, Section 14(c) and (d) and Supplementary .01 to Options 3, Section

⁸¹ See proposed Supplementary .06(b) to Options 3, Section 14.

14 with respect to Complex Order executions. The adoption of the ISE and MRX process will permit Phlx members and member organizations to opt in to a Complex Exposure where today they opt out of a Complex Order Live Auction or "COLA," which is described in current Options 3, Section 14(e).⁸²

Today, on Phlx, after identifying a COLA-eligible order, Phlx's System sends a broadcast notice to participants indicating that the System has initiated a COLA. During the COLA Timer, participants may bid and/or offer on either or both side(s) of the market by submitting one or more bids or offers that improve the cPBBO, known as "COLA Sweeps." If the System receives no COLA Sweeps or responsive Complex Orders during the COLA Timer, the COLA-eligible order may trade at the Phlx best bid or offer with quotes or orders on the limit order book for the components of the Complex Order, provided that the order can be executed in the correct ratio and at the desired price. If the System receives responses during the COLA Timer, the COLA-eligible order and the responsive COLA Sweeps or Complex Orders will trade. Phlx members and member organizations may elect to opt out of a COLA by marking their orders as Do Not Auction or "DNA". The term "Do Not Auction" means that this Complex Order is not "COLA-eligible."⁸³ In contrast, with the new proposal a Complex Exposure Auction must be designated by a member or member organization pursuant to Supplementary Material .01 to Options 3, Section 14. Both auctions require responses to improve the Complex Order Book and the synthetic book. Another difference between these auctions is that while the COLA does not early terminate, the Complex Order Exposure may early terminate as specified in Supplementary .01(b)(ii) to Options 3, Section 14.

Complex Exposure

In lieu of a COLA, proposed Supplementary Material .01 to Options 3, Section 14 proposes a Complex Exposure which would provide that members and member organizations

⁸² In summary, the COLA is an automated auction for seeking additional liquidity and price improvement for Complex Orders. Specifically, Phlx's COLA is an auction intended to solicit interest in a particular Complex Order other than on the opening. A COLA may take place upon identification of the existence of a COLA-eligible order during normal trading if the System receives a Complex Order that improves the cPBBO. See current Options 3, Section 14(e)(i)(A).

⁸³ See Options 3, Section 14(a)(viii). A DNA Order prevents a market participant's complex order from triggering a COLA, pursuant to Options 3, Section 14(e), or joining one that is in progress.

may elect to have their Complex Orders exposed for up to one second. Specifically, the proposed rule describes an auction process whereby Complex Orders that improve upon the best price for the same complex strategy on the Complex Order Book upon entry may be exposed for up to one second. The proposed rule text at Supplementary Material .01 to Options 3, Section 14 is identical to ISE and MRX Supplementary Material .01 to Options 3, Section 14.

If designated by a member organization for exposure, eligible Complex Orders are exposed upon entry for a period of up to one (1) second pursuant to subparagraph (d)(1) as described hereafter. A Complex Order that improves upon the best price for the same complex strategy on the Complex Order Book (*i.e.*, a limit order to buy priced higher than the best bid, a limit order to sell priced lower than the best offer, and a market order to buy or sell) is eligible to be exposed upon entry for a period of up to one (1) second as provided in Supplementary Material .01 to Options 3, Section 14. Incoming orders will not be eligible to be exposed if there are market orders on the Complex Order Book on the same side of the market for the same complex strategy.⁸⁴

Upon entry of an eligible Complex Order, a broadcast message that includes net price or at market, size, and side will be sent and member organizations will be given an opportunity to enter Responses with the prices and sizes at which they are willing to participate in the execution of the Complex Order.⁸⁵ Responses would only be executable against the Complex Order with respect to which they are entered, can be modified or withdrawn at any time prior to the end of the exposure period, and will be considered up to the size of the Complex Order being exposed. During the exposure period, the Exchange would broadcast the best Response price, and the aggregate size of Responses available at that price. At the conclusion of the exposure period, any unexecuted balance of a Response would be automatically cancelled for Exposure Only Complex Orders and for Exposure Complex Orders the remaining balance would be placed on the order book.⁸⁶ The exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order for 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; (B) upon the receipt of a non-marketable Complex Order for the same complex strategy on the same side of the market that would cause the price of the exposed Complex Order to be outside of the best bid or offer for the same complex strategy on the Complex Order Book; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.⁸⁷

At the end of the exposure period, if the Complex Order still improves upon the best price for the complex strategy on the same side of the market, it is automatically executed to the greatest extent possible pursuant to proposed subparagraph (d)(2)–(3), taking into consideration: (i) bids and offers on the Complex Order Book (including interest received during the exposure period), (ii) bids and offers on the Exchange for the individual options series (including interest received during the exposure period), and (iii) Responses received during the exposure period, provided that when allocating pursuant to proposed subparagraph (d)(2)(ii). Responses are allocated pro-rata based on size. Thereafter, any unexecuted balance will be placed on the Complex Order Book (or cancelled in the case of an Exposure Only Complex Order). Notwithstanding the foregoing, proposed Supplementary Material .01(b)(ii) to Options 3, Section 14 shall not be applicable with respect to Stock Option Orders and Stock Complex Orders.⁸⁸ Finally, if a trading halt is initiated during the exposure period in any series underlying the Complex Order, the Complex Order exposure process will be automatically terminated without execution.⁸⁹

Example: Suppose the following market in complex strategy ABC:

ISE Complex BBO: 10 @ 1.00 x 10 @ 1.05
An Exposure Only Order is entered to buy 20 @ 1.03:

A broadcast message is sent announcing the start of an exposure auction. During the exposure period, the following responses are received:

Response 1: Sell 10 @ 1.03

Response 2: Sell 5 @ 1.02

At the end of the exposure period, the Exposure Only Order trades against:

Response 2: 5 @ 1.02

Response 1: 10 @ 1.03

The remaining quantity of 5 contracts is then cancelled.

Complex Order Book

Current Options 3, Section 14(f) describes Phlx's Complex Limit Order Book or "CBOOK." Phlx's proposal adopts ISE and MRX Options 3, Section 14(d) which rule describes the execution of Complex Strategies on the Complex Order Book. Pursuant to current Phlx Options 3, Section 14(f)(i), Complex Orders must be entered onto the CBOOK in increments of \$0.01. The individual components of a Complex Order may be executed in minimum increments of \$0.01, regardless of the minimum increments applicable to such components. Proposed Options 3, Section 14(c)(1) requires that bids and offers for Complex Options Strategies 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. The minimum increment is not changing. Phlx's allocation model for Complex Order will remain specific to Phlx as noted in Options 3, Section 14(d)(2) and will allocate in time priority according to its Options 3, Section 10 rules while ISE and MRX allocate according to ISE and MRX Options 3, Section 10 rules.

Today, Phlx permits non-broker-dealer customer and non-market maker broker-dealer Complex Orders to be entered on the CBOOK. An order resting on the CBOOK may execute against quotes or orders on the limit order book for the individual components of the order or against incoming Complex Order(s) that do not trigger a COLA Timer, whichever arrives first. An incoming Complex Order that does not trigger a COLA Timer may execute against interest on the limit order book for the individual components of the order or against Complex Orders resting on the CBOOK. Complex Orders on the CBOOK may be executed in one-cent increments, regardless of the minimum increments applicable to the individual components of the Complex Order. Complex orders in the CBOOK will be executed without consideration of any prices that might be available on other exchanges trading the same contracts. A Complex Order resting on the CBOOK will execute automatically against: (1) quotes, orders on the Limit Order book for the individual options components of the order, or sweeps, except if any of the components is the underlying security, and provided that the Complex

⁸⁴ See proposed Supplementary Material .01(a) to Options 3, Section 14.

⁸⁵ See proposed Supplementary Material .01(b) to Options 3, Section 14.

⁸⁶ See proposed Supplementary Material .01(b)(i) to Options 3, Section 14.

⁸⁷ See proposed Supplementary Material .01(b)(ii) to Options 3, Section 14.

⁸⁸ See proposed Supplementary Material .01(c) to Options 3, Section 14.

⁸⁹ See current Supplementary Material .01(d) to Options 3, Section 14.

Order can be executed in full or in a permissible ratio by such quotes or orders (allocated in accordance with Options 3, Section 10)); or (2) an incoming marketable Complex Order(s) that do(es) not trigger a COLA Timer, whichever arrives first. Incoming marketable Complex Order that does not trigger a COLA Timer will trade in the manner specified in Options 3, Section 14(f)(iii)(B).

Phlx's proposed rules at Options 3, Section 14(d) will provide that Complex strategies would be executed without consideration of any prices that might be available on other exchanges trading the same options contracts. Complex strategies would not be executable unless all of the terms of the strategy can be satisfied and the options legs can be executed at prices that comply with the provisions of proposed paragraph (c)(2) of Options 3, Section 14.⁹⁰ Complex strategies, other than those that are executed as crossing transactions pursuant to Options 3, Sections 12 and 13, would be automatically executed as described in proposed Options 3, Section 14(d). Each Complex Order must specify upon entry whether it should be exposed upon entry if eligible, or whether such Complex Order should be processed without being exposed. Eligible incoming Complex Orders that are designated for exposure would be exposed for price improvement pursuant to proposed Supplementary Material .01 to Options 3, Section 14.⁹¹ Complex Options Orders would be executed at the best net price available from Complex Order Exposure pursuant to proposed Supplementary Material .01 to Options 3, Section 14, executable Complex Orders on the Complex Order Book, and bids and offers for the individual options series; provided that at each price, executable Complex Options Orders will be automatically executed first against executable bids and offers on the Complex Order book prior to legging in the single leg order book. Notwithstanding the foregoing, executable Complex Options Orders will execute against Public Customer

interest on the single leg book at the same price before executing against the Complex Order Book.⁹² Thus, Public Customer Orders on the single leg order book shall retain priority and will execute prior to any other Complex Order or non-Public Customer single leg interest at the same price. Stock Option Orders and Stock Complex Orders will be executed at the best net price available from Complex Order Exposure pursuant to proposed Supplementary Material .01 to Options 3, Section 14 and executable Complex Orders on the Complex Order Book. The Exchange may designate on a class basis whether bids and offers at the same price on the Complex Order Book will be executed: (i) in time priority; or (ii) pro-rata based on size pursuant to Options 3, Section 10(a)(1)(E) and (F).⁹³

Pursuant to proposed Options 3, Section 14(d)(3), if there is no executable contra-side complex interest on the Complex Order Book at a particular price, executable Complex Options Orders up to a maximum number of legs (determined by the Exchange on a class basis as either two legs, three legs or four legs) may be automatically executed against bids and offers on the Exchange for the individual options series provided the Complex Order can be executed in full or in a permissible ratio by such bids and offers. Legging Orders may be automatically generated on behalf of Complex Options Orders so that they are represented at the best bid and/or offer on the Exchange for the individual legs of the Complex Options Order as provided in proposed Options 3, Section 7(k). Notwithstanding the foregoing: Complex Orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other Complex Orders in the Complex Order Book pursuant to proposed Options 3, Section 14(d)(3)(A). The System will not generate Legging Orders for these Complex Orders pursuant to proposed Options 3, Section 14(d)(3)(A). Complex Orders with three or four option legs where all legs are buying or all legs are selling may only trade against other Complex Orders in

the Complex Order Book pursuant to proposed Options 3, Section 14(d)(3)(B). Pursuant to proposed Options 3, Section 14(d)(4), complex strategies that are not executable may rest on the Complex Order Book until they become executable.

Stock Option and Stock-Complex Orders

Stock Option and Stock-Complex Orders are described in proposed Supplementary Material .02 to Options 3, Section 14 which describes an automated process for the communication of stock-option orders by electronically transmitting the orders related to the stock leg(s) for execution on behalf of the parties to the trade. The Exchange notes that the manner in which Phlx handles Complex Orders with a stock component is not being amended with this proposal. Today, Phlx similarly handles Complex Orders with a stock component as noted in proposed Supplementary Material .02 to Options 3, Section 14.

Specifically, the Exchange states at proposed Supplementary Material .02 to Options 3, Section 14, "The Exchange will electronically communicate the stock leg of an executable Stock-Option Order and Stock-Complex Order to NES for execution. To execute Stock-Option Orders and Stock-Complex Orders on the Exchange, member organizations must enter into a brokerage agreement with Nasdaq Execution Services or "NES."⁹⁴ The Exchange will automatically transmit the stock leg of a trade to NES."

Additionally, similar to language described in current Options 3, Section 14(a) regarding compliance with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS, the Exchange proposes similar language in proposed Supplementary Material .07 to Options 3, Section 14. Specifically, this rule text would provide,

Qualified Contingent Trade Exemption. Members and member organizations may only submit Complex Orders in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Exchange Act. Members and member organizations submitting Complex Orders in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the Qualified Contingent Trade Exemption. member organizations of FINRA or The Nasdaq Stock Market ("Nasdaq") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Execution Services, LLC ("NES") in order to

⁹⁴ NES is a broker-dealer, owned and operated by Nasdaq, Inc. NES, an affiliate of the Exchange.

⁹⁰ For example, assume the Phlx PBBO for series A is $\$1.00 \times \1.10 and the Phlx PBBO for series B is $\$0.95 \times \1.05 . A resting Complex Order to sell series A and sell series B at a net price of $\$2.16$ is not executable because one of the legs of the Complex Order would need to be executed at a price that is above the best offer available for the individual series (i.e., $\$1.10$ for series A and $\$1.06$ for series B; or $\$1.11$ for series A and $\$1.05$ for series B). Nor would such a Complex Order be executable at a net price of $\$2.15$ if there were Public Customer orders on the Exchange to sell series A and/or series B at the Phlx best offer; however, the Complex Order would be executable at a price of $\$2.14$.

⁹¹ See proposed Options 3, Section 14(d)(1).

⁹² See proposed Options 3, Section 14(d)(2).

⁹³ See proposed Options 3, Section 14(d)(2). Phlx's will retain its allocation methodology pursuant to Options 3, Section 10, whereas ISE has a different allocation model in its Options 3, Section 10. Phlx amended its allocation model in SR-Phlx-2024-71. See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71). SR-Phlx-2024-71 is effective but not yet operative. SR-Phlx-2024-71 would be operative at the same time as this rule change as they are both part of the same technology migration.

trade Complex Orders in Stock-Option Strategies and Stock-Complex Strategies; firms that are not members of FINRA or Nasdaq are required to have a Qualified Special Representative (“QSR”) arrangement with NES in order to trade Complex Orders in Stock-Option Strategies and Stock-Complex Strategies. In addition, the stock leg of a stock-option order must be marked “buy,” “sell,” “sell short,” or “sell short exempt” in compliance with Regulation SHO under the Exchange Act.

Floor Complex Orders

In light of the proposed changes to the Options 3, Section 14 rules, the Exchange proposes to amend Options 8, Section 32, Types of Floor-Based (Non-System) Orders to provide the types of Complex Orders that would be available on the Exchange’s trading floor.⁹⁵ The Exchange proposes to amend Options 8, Section 32(a)(3)-(5) to align to the new terms in Options 3, Section 14(a)(1)-(3) which terms also provide the ratios applicable for these Complex Orders. Specifically, the Exchange proposes to note that a Complex Options Strategy, Stock-Option Strategy and Stock-Complex Strategy are available for trading on the Exchange’s trading floor, in open outcry. The current terms, Complex Orders and Stock-Option Order will no longer exist. The Exchange also proposes to renumber current Options 8, Section 32(a)(5) as (a)(6).

The Exchange proposes to specifically note in Options 8, Section 32(b)(1) that a Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. Additionally, the Exchange proposes to note in Options 8, Section 32(b)(2) that a Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered. The Exchange proposes to amend Options 3, Section 32(f)(7) that relates to a Complex Order to note that a Complex Order is a type of multi-leg order⁹⁶ that meets the definition of Complex Options Strategy in Options 3, Section 14(a)(1), Stock-Option Strategy in Options 3, Section 14(a)(2) or Stock-Complex Strategy in Options 3, Section 14(a)(3). Finally, the Exchange proposes to remove the term “DNA Order” at Options 8, Section

32(f)(8). A DNA Order will no longer exist. The Exchange notes that DNA Orders are not being utilized by floor participants on Phlx’s trading floor. Today, ISE and MRX do not utilize a DNA Order.

As noted above in this proposal, the Exchange also proposes to cite to the amended definitions at Options 8, Section 32(a)(3)-(5) which reference Options 3, Section 14(a)(1)-(3) by amending the Spread Type Priority description at Options 8, Section 24(j). The Exchange proposes to define a conforming ratio at Options 1, Section 1(b)(13) as discussed later in this proposal.⁹⁷

Trading Halts

The Exchange proposes to amend Options 3, Section 9(d)(2) which describes how the Exchange will open an affected option after a trading halt. Today, Options 3, Section 9(d)(2) states that,

After the opening, the Exchange shall reject Market Orders, as defined in Options 8, Section 32(a) (including Complex Orders, as defined in Options 3, Section 14), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.

The Exchange proposes to amend Options 3, Section 9(d)(2) to instead provide,

After the opening, the Exchange shall reject Market Orders, as defined in Options 8, Section 32(a) (including Market Complex Orders, as defined in Options 3, Section 14(b), and shall notify members and member organizations of the reason for such rejection. The Exchange shall cancel Market Complex Orders residing in the System if the Market Complex Order becomes marketable while the affected underlying is in a Limit or Straddle State. Market Complex Orders exposed for price improvement pursuant to Supplementary Material .01 to Options 3, Section 14, pending in the System will continue to be processed. If at the end of the exposure period the affected underlying is in a Limit or Straddle State, the Market Complex Order will be cancelled. If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Complex Order will be processed with normal handling.

⁹⁷ As proposed, 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.

Specifically, the Exchange proposes to utilize the new definition of Market Complex Order proposed in Options 3, Section 14(b)(1).⁹⁸ The Exchange proposes to replace the word “Participants” with members and member organizations.

The Exchange notes that the proposed language in Options 3, Section 9 considers the potential impacts to Market Complex Orders during a trading halt and ensures that the System cancels affected series but permits certain orders to be processed provided a Limit or Straddle State is not in effect. The proposed change to Options 3, Section 9 is identical to ISE Options 3, Section 9.

Simple Order Risk Protections

The Exchange proposes to amend a Market Wide Risk Protection at Options 3, Section 15(a)(3) for single-leg orders.⁹⁹ This risk protection which is comprised of an “Order Entry Rate Protection” which protects Members against entering orders at a rate that exceeds predefined thresholds, and an “Order Execution Rate Protection,” which protects Members against executing orders at a rate that exceeds their predefined risk settings. Both of these risk protections are detailed in the “Market Wide Risk Protection.”

Today, pursuant to the proposed Market Wide Risk Protection rule, the Exchange’s System maintains one or more counting programs for each Member that count orders entered and contracts traded on ISE and MRX. Members can use multiple counting programs to separate risk protections for different groups established within the Member. Phlx Options 3, Section 15(a)(1)(C) currently states, that the counting programs will maintain separate counts, over rolling time periods specified by the Member for each count of: (1) the total number of orders entered. The Exchange proposes to amend this risk protection to consider counts for Complex Orders with options legs in addition to single-leg orders. Specifically, the Exchange proposes to add new (2) through (6) to Options 3,

⁹⁸ As proposed, A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the Complex Order Book unless designated as fill-or-kill or immediate-or-cancel. Phlx currently permit Market Complex Orders in its COOP.

⁹⁹ SR-Phlx—2024-71 proposed a new Market Wide Risk Protection at Options 3, Section 15(a)(3). See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71). SR-Phlx-2024-71 is effective but not yet operative. SR-Phlx-2024-71 would be operative at the same time as this rule change as they are both part of the same technology migration.

⁹⁵ The order types were renumbered in SR-Phlx-2024-71. See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71). SR-Phlx-2024-71 is effective but not yet operative. SR-Phlx-2024-71 would be operative at the same time as this rule change as they are both part of the same technology migration. This proposal reflects that numbering.

⁹⁶ The Exchange proposes to lower case the term “multi-leg order.”

Section 15(a)(3), which rule text is identical to ISE and MRX Options 3, Section 15(a)(1)(C) as it pertains to Complex Orders. Specifically, the Exchange proposes to add the following rule text:

Market Wide Risk Protection. All member organizations must provide parameters for the order entry and execution rate protections described in this Rule. The Exchange will also establish default values for each of these parameters that apply to member organizations that do not submit the required parameters, and will announce these default values in an Options Trader Alert to be distributed to member organizations. The System will maintain one or more counting programs for each member organization that count orders entered and contracts traded on Phlx. Member organizations can use multiple counting programs to separate risk protections for different groups established within the member organizations. The counting programs will maintain separate counts, over rolling time periods specified by the member organization for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of Complex Option Orders entered in the complex order book; (3) the total number of Stock-Option and Stock-Complex Orders entered into the complex order book; (4) the total number of contracts traded in regular orders; (5) the total number of contracts traded in Complex Options Orders; and (6) the total number of contracts traded in Stock-Option and Stock-Complex Orders entered into the complex order book. The minimum and maximum duration of the applicable time period will be established by the Exchange and announced via an Options Trader Alert.

The proposed rule text would include a complex execution count for Complex Option Orders, Stock-Option and Stock-Complex Orders. As proposed, the counting programs will maintain separate counts, over rolling time periods specified by the member or member organization for each count. This risk protection will reduce risk associated with system errors or market events that may cause members and member organizations to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Without adequate risk management tools, such as those proposed in this filing, members and member organizations could reduce the amount of order flow and liquidity that they provide on Phlx. As a result, the functionality promotes just and equitable principles of trade.

Complex Order Risk Protections

Today, Phlx offers a Strategy Price Protection or “SPP” feature of the System that prevents certain Complex Order Strategies from trading at prices outside of pre-set standard limits.

Today, SPP applies to Vertical Spreads, Time Spreads, Box Spreads and Butterfly Spreads.¹⁰⁰ A Vertical Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices.¹⁰¹ With this protection, the SPP will calculate the maximum possible value of a Vertical Spread by subtracting the value of the lower strike price from the value of the higher strike price as between the two components. For example, a Vertical Spread consisting of the purchase of one January 30 call and the sale of one January 35 call would have a maximum value of \$5.00. The minimum possible value of a Vertical Spread is always zero.¹⁰² The SPP ensures that a Vertical Spread will not trade at a net price of less than the minimum possible value (minus a pre-set value setting an acceptable range) or greater than the maximum possible value (plus a pre-set value setting an acceptable range).¹⁰³ A Time Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price.¹⁰⁴ The maximum possible value of a Time Spread is unlimited. The minimum possible value of a Time Spread is zero.¹⁰⁵ The SPP will ensure that a Time Spread will not trade at a price of less than zero (minus a pre-set value setting an acceptable range).¹⁰⁶ Pursuant to current Options 3, Section 16(a)(iii), if the limits (on either side of the market) set forth in sub-paragraphs (i)(B) and (ii)(B) are violated by an execution, the System will cancel the order.

The Exchange is modifying the Complex Order risk protections at current Options 3, Section 16 so that they are identical to the Complex Order risk protections at ISE and MRX Options 3, Section 16. As an overview, the Exchange proposes to (1) replace the ACE Parameter with a price limit utilized by ISE and MRX at Options 3, Section 16(a); (2) adopt “Do-Not-Trade-Through” or “DNTT” functionality is

¹⁰⁰ See current Options 3, Section 16(a). The current rule fails to note that BOX and Butterfly spreads also utilize SPP.

¹⁰¹ See current Options 3, Section 16(a)(i).

¹⁰² See current Options 3, Section 16(a)(i)(A).

¹⁰³ See current Options 3, Section 16(a)(i)(B). The pre-set value and acceptable range will be uniform for all options traded on the Exchange as determined by the Exchange and communicated to membership on the Exchange’s website. See also current Options 3, Section 16(a)(i)(C).

¹⁰⁴ See current Options 3, Section 16(a)(ii).

¹⁰⁵ See current Options 3, Section 16(a)(ii)(A).

¹⁰⁶ See current Options 3, Section 16(a)(ii)(B).

identical to ISE and MRX Options 3, Section 16(a); (3) amend the Strategy Protections in proposed Options 3, Section 16(b) to: (a) adopt a new Vertical Spread Protection in proposed Options 3, Section 16(b)(1); (b) adopt a Calendar Spread Protection in proposed Options 3, Section 16(b)(2) that would replace the Time Spread in current Options 3, Section 16(a)(ii); (c) relocate the current Butterfly Spread Protection in current Options 3, Section 16(c) to proposed Options 3, Section 16(b)(3) and amend the rule text; and (d) relocate the current Box Spread Protection in current Options 3, Section 16(d) to proposed Options 3, Section 16(b)(4) and amend the rule text; and (3) adopt Other Price Protections in proposed Options 3, Section 16(c) which apply to Complex Orders which are identical to price protections at ISE and MRX Options 3, Section 16(c), specifically a Complex Order Price Protection, a Size Limitation Protection, and a Price Level Protection.

Proposed Phlx Options 3, Section 16(b) will similarly provide with respect to Complex Orders,

Where one component of a Complex Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Order to Nasdaq Execution Services, LLC (“NES”), its designated broker dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market, which the Exchange will establish in an Options Trader Alert. If the stock price is not within these parameters, the Complex Order is not executable.

When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. However, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked “short exempt,” regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Order to the entering member organization. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

As proposed, Phlx Options 3, Section 16(d) similarly provides that with respect to Complex Orders in Stock-Option Strategies and Stock-Complex

Strategies, the Exchange shall electronically communicate the underlying security component of a Complex Order to NES, its designated broker dealer, for immediate execution. As is the case today, such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. As is the case today, NES will ensure that the execution price is within the high-low range for the day in that stock at the time the Complex Order is processed and within a certain price from the current market pursuant to proposed Options 3, Section 16(a). If the stock price is not within these proposed parameters, the Complex Order is not executable and the Exchange will hold the Complex Order on the Order Book, if consistent with Member instructions. Similar to ISE and MRX, Phlx utilizes NES, today, to execute Stock-Tied Complex Orders.

Further, proposed Options 3, Section 16(e) provides, when the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component of a Complex Order if the price is equal to or below the current national best bid. This is the case today. However, as is the case today, NES will execute a short sale order in the underlying covered security component of a Complex Order if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NES cannot execute the underlying covered security component of a Complex Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Order on the Complex Order Book, if consistent with Member instructions, as is the case today. The order may execute at a price that is not equal to or below the current national best bid, as is the case today. For purposes of Options 3, Section 16(e), the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

Today, Phlx utilizes its Acceptable Complex Execution or "ACE" Parameter to define a price range outside of which a Complex Order will not be executed.¹⁰⁷ More specifically, the ACE Parameter is either a percentage or number defined by the Exchange and may be set at a different percentage or number for Complex Orders where one of the components is the underlying security. The ACE Parameter price range is based on the cNBBO at the time an order would be executed. A Complex

Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to Options 3, Section 16(b)(i) will be placed on the CBOOK.¹⁰⁸

Phlx proposes to replace the ACE Parameter with a price limit utilized by ISE and MRX.¹⁰⁹ Phlx would adopt the identical price limit utilized by ISE and MRX at Options 3, Section 16(a). As provided in proposed Options 3, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding Options 3, Section 14(d)(2), Phlx proposes to state that the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A member or member organization may also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO on the opposite side for the options series or any stock component, as applicable ("Do-Not-Trade-Through" or "DNNTT"). The proposed DNNTT functionality is identical to ISE and MRX Options 3, Section 16(a). As proposed, the System will reject orders for a complex strategy where all legs are to buy if entered at a price that is less than the minimum net price, which is calculated as the sum of the ratio on each leg relative to the other legs of the complex strategy multiplied by the minimum increment applicable to that leg pursuant to Options 3, Section 14(c)(1). For example, if a Complex Order has three legs where Leg 1 is a buy of 100 contracts, Leg 2 is a buy of 200 contracts, and Leg 3 is a buy of 300 contracts, then the ratio on each leg relative to the other legs is 1 by 2 by 3, and the allowable minimum net price is 6 (1+2+3) multiplied by \$0.01 would equal \$0.06.

The proposed price limit will prevent the legs of a complex strategy from trading through the NBBO for the series or any stock component by a configurable amount calculated as the

lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series, or underlying basis.

Phlx also proposes to adopt Strategy Protections in proposed Options 3, Section 16(b). These protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders being auctioned and auction responses in Price Improvement Mechanism within Options 3, Section 13. The Strategy Protections in Options 3, Section 16(b) as the Vertical Spread Protection, Calendar Spread Protection, Butterfly Spread Protection, and Box Spread Protection, and are aimed at preventing the potential execution of certain complex strategies outside of specified price parameters.

The Exchange proposes to adopt a new Vertical Spread Protection in proposed Options 3, Section 16(b)(1). The Vertical Spread Protection will apply to a vertical spread. A vertical spread is an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price.¹¹⁰ The System will reject a Vertical Spread order when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is less than zero (minus a pre-set value) when entered as a Market Order to sell. The Exchange will set a pre-set value not to exceed \$1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.¹¹¹ The System will reject a Vertical Spread order when entered with a net price greater than the value of the higher strike price minus the lower strike price (plus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a Market Order to buy. The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed \$1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.¹¹² The proposed Vertical Spread Protection and the current Vertical Spread Protection are

¹¹⁰ See proposed Options 3, Section 16(a)(1)(A).

¹¹¹ See proposed Options 3, Section 16(a)(1)(B).

¹¹² See proposed Options 3, Section 16(a)(1)(C).

¹⁰⁷ See current Options 3, Section 16(b)(i).

¹⁰⁸ See current Options 3, Section 16(b)(i).

¹⁰⁹ See ISE and MRX Options 3, Section 16(a).

substantially similar. Today, Phlx only has a set absolute amount configured by the Exchange for the 'pre-set value' while the proposed protection utilizes the lesser of an absolute amount or a percentage amount as the pre-set value.¹¹³ The proposed change would be an improvement over the existing Vertical Spread Protection because it would better protect market complex order strategies with narrower spreads.

The Exchange proposes to adopt a Calendar Spread Protection in proposed Options 3, Section 16(b)(2) that would replace the Time Spread in current Options 3, Section 16(a)(ii) which is similar.¹¹⁴ The Calendar Spread Protection will apply to a Calendar Spread. A calendar spread is an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price.¹¹⁵ The System will reject a Calendar Spread order when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a Calendar Spread order at a price that is less than zero (minus a pre-set value) when entered as a Market Complex Order to sell. The Exchange will set a pre-set value not to exceed \$1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.¹¹⁶

Phlx proposes to relocate the current Butterfly Spread Protection in current Options 3, Section 16(c) to proposed Options 3, Section 16(b)(3) and amend the rule text in current Options 3, Section 16(c)(i) that states,

A Butterfly Spread including an order being auctioned and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Butterfly Spread entered as a Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Exchange proposes to amend this language to state in proposed Options 3, Section 16(b)(3)(A),

A Butterfly Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a

net price inside the Butterfly Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

The Exchange's amended language notes that the Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.¹¹⁷

Phlx proposes to relocate the current Box Spread Protection in current Options 3, Section 16(d) to proposed Options 3, Section 16(b)(4) and amend the rule text in current Options 3, Section 16(d)(i) that states,

A Box Spread including an order being auctioned and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Box Spread entered as a Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Exchange proposes to amend this language to state in proposed Options 3, Section 16(b)(4)(A),

A Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

The Exchange's amended language notes that the Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.¹¹⁸

Further, the Exchange proposes to provide at proposed Options 3, Section 16(b), identical to ISE and MRX Options 3, Section 16(b), that the complex risk protections would not apply to a Complex Order that includes at least one P.M.-settled leg and at least one A.M.-settled leg. A Complex Options

Strategy may consist of legs with different expirations based on settlement (a.m. or p.m.-settled). The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to the expiration date.¹¹⁹ In contrast, the last day of trading for P.M.-settled index options shall be the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day before its expiration date.¹²⁰

The Exchange proposes to not apply the strategy protections in Options 3, Section 16(b) to a Complex Order that includes at least one P.M.-settled leg and at least one A.M.-settled leg.¹²¹ A Complex Order that includes at least one P.M.-settled leg and at least one A.M.-settled leg would not qualify as a Vertical Spread, Butterfly Spread, Calendar Spread or BOX Spread because the P.M.-settled leg and the A.M.-settled leg would have different expirations. The System considers these Complex Orders to be different products, as well as customized Complex Orders, so System limitations would prevent the application of the Strategy Price Protections to these Complex Orders. The Exchange notes that the Vertical Spread Protections, Butterfly Spread Protections and BOX Spread Protections all have the same expirations unlike a Complex Order that includes at least one P.M.-settled leg and at least one A.M.-settled leg. The Exchange also notes that the System considers a Calendar Spread to have all legs in the same product, unlike a Complex Order that includes at least one P.M.-settled leg and at least one A.M.-settled leg. A Complex Order that includes at least one P.M.-settled leg and at least one A.M.-settled leg would still be subject to the price limits for Complex Orders in Options 3, Section 16(a) and the price protections in Options 3, Section 16(c), namely the Complex Order Price Protection, Size Limitation and Price Level Protection.

The Exchange proposes to adopt Other Price Protections in proposed Options 3, Section 16(c) which apply to Complex Orders which are identical to price protections at ISE and MRX Options 3, Section 16(c). The Exchange proposes to adopt a new Complex Order

¹¹³ Today, ISE's System Setting document notes that the Vertical Spread Protection is the lesser of \$1.00 or 5%. See <https://www.nasdaq.com/docs/ISESystemSettings>. Phlx will have a similar setting that will be noted in its System Setting document that is publicly available.

¹¹⁴ The Time Spread allows a maximum possible value of a Time Spread that is unlimited with a minimum possible value of Time Spread of zero.

¹¹⁵ See proposed Options 3, Section 16(a)(2).

¹¹⁶ See proposed Options 3, Section 16(a)(2)(A).

¹¹⁷ The Butterfly Spread Protection will continue to apply throughout the trading day, including pre-market, during the Opening Process and during Halts although the Exchange is removing this text in current Options 3, Section 16(c)(ii) so that the rule text is identical to ISE and MRX Options 3, Section 16(b)(3).

¹¹⁸ The Box Spread Protection will continue to apply throughout the trading day, including pre-market, during the Opening Process and during Halts although the Exchange is removing this text in current Options 3, Section 16(d)(ii) so that the rule text is identical to ISE and MRX Options 3, Section 16(b)(4).

¹¹⁹ See Options 4A, Section 12(e).

¹²⁰ See Options 4A, Section 12(f).

¹²¹ The a.m. expiration and p.m. expiration would have different settlement days.

Price Protection in proposed Options 3, Section 16(c)(1). This Complex Order Price Protection will put a limit on the amount by which the net price of an incoming Limit Complex Order to buy may exceed the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg, and by which the net price of an incoming Limit Complex Order to sell may be below the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg. Limit Complex Orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for Limit Complex Orders to buy (sell) as the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg plus (minus) the greater of: (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg not to exceed 10%.¹²²

The Exchange proposes to adopt a new Size Limitation protection in proposed Options 3, Section 16(c)(2) which is identical to ISE and MRX Options 3, Section 16(c)(2). The Size Limitation protection will place a limit on the number of contracts (and shares in the case of a Stock-Option Strategy or Stock-Complex Strategy) any single leg of an incoming Complex Order may specify. Orders that exceed the maximum number of contracts (or shares) are rejected. The maximum number of contracts (or shares), which shall not be less than 10,000 (or 100,000 shares), is established by the Exchange from time-to-time.¹²³

The Exchange proposes to adopt a new Price Level Protection in proposed Options 3, Section 16(c)(3) which is identical to ISE and MRX Options 3, Section 16(c)(3). The Price Level Protection will place a limit on the number of price levels at which an incoming Complex Order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex Orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be from one (1) to ten (10), is determined by the

Exchange from time-to-time on a class-by-class basis.¹²⁴

As a result of these new Complex Order price protections, the Exchange also proposes an amendment to Options 3, Section 7(d)(2).¹²⁵ Currently, Options 3, Section 7(d)(2) provides, "IOC orders may be entered through FIX or SQF, provided that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the (A) Order Price Protection, Market Order Spread Protection, and Size Limitation Protection as defined in Options 3, Section 15(a)(1), (a)(2), and (b)(2) respectively, for single leg orders." With the addition of the proposed Complex Order Protections in Options 3, Section 16, the Exchange proposes to add additional language to the Immediate-or-Cancel order type, similar to ISE and MRX Options 3, Section 7(d)(2), and provide at new "B" to Options 3, Section 7(d)(2), that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders. The Exchange notes while it generally only permits orders (including IOC orders) to be entered into FIX,¹²⁶ it does permit the entry of IOC orders by Market Makers into its quote protocol, SQF.¹²⁷ The Exchange has elected not to apply the

¹²⁴ See proposed Options 3, Section 16(c)(3).

¹²⁵ Options 3, Section 7(d)(2) was amended in SR-Phlx-2024-71. See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71).

¹²⁶ "Financial Information eXchange" or "FIX" is an interface that allows members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications. See Options 3, Section 7(a)(i)(A).

¹²⁷ "Specialized Quote Feed" or "SQF" is an interface that allows Lead Market Makers, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs") to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge requests from the Lead Market Maker, SQT or RSQT. Lead Market Makers, SQTs and RSQTs may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, the Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1), (a)(2) and (b)(2), respectively. See Options 3, Section 7(a)(i)(B).

Complex Order Price Protection on IOC orders entered through SQF as it does for IOC orders entered through FIX because only Market Makers utilize SQF to enter IOC orders. Market Makers are professional traders with their own risk settings. FIX, on the other hand, is utilized by all market participants who may not have their own risk settings, unlike Market Makers. Market Makers utilize IOC orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. The Exchange understands that proper risk management, including using these IOC orders to offload risk, is vital for Market Makers. Market Makers handle a large amount of risk when quoting. Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker's erroneous order from being entered. The Exchange believes that Market Makers, unlike other market participants, have the ability to manage their risk when submitting IOC orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations that the Exchange imposes on these participants, unlike other market participants. The Exchange believes that allowing Market Makers to submit IOC orders through their preferred protocol increases their efficiency in submitting such orders and thereby allows them to maintain quality markets to the benefit of all market participants that trade on the Exchange. For the foregoing reasons, the Exchange has opted to not offer the Complex Order Price Protection for IOC orders entered through SQF because Market Makers have more sophisticated infrastructures than other market participants and are able to manage their risk.

Order Routing

The Exchange proposes to amend Options 5, Section 4, Order Routing. Specifically, the Exchange proposes to amend Options 5, Section 4(A) to amend the sentence that provides, "The sole use of the Routing Facility by the System will be to route orders in options listed and open for trading on the System to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange rules on behalf of the Exchange and, in addition, where one component of a Complex Order is the underlying security, to execute and report such component otherwise than on the Exchange, pursuant to Rule Options 3, Section 14(h)." The Exchange proposes to amend this

¹²² See proposed Options 3, Section 16(c)(1).

¹²³ See proposed Options 3, Section 16(c)(2).

sentence to state, “The sole use of the Routing Facility by the System will be to route orders in options listed and open for trading on the System to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange rules on behalf of the Exchange.” Options 3, Section 14(h) previously contained the rule text that is currently in Options 3, Section 16(b) and refers to the stock portion of an options order.¹²⁸ The Exchange does not route the stock portion of an options order, rather NES routes the stock leg. Options 5, Section 4 applies only to options orders. The Exchange proposes to remove this sentence to conform the rule text to ISE Options 5, Section 4(a) rule text.

Options 1, Section 1

The Exchange proposes to define a conforming ratio in Options 1, Section 1(b)(13) as follows,

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.

This definition is the same definition that is currently in Phlx Options 3, Section 14(a)(ix). This definition would apply to all options rules where the term is utilized. The Exchange would also renumber the definitions at Options 1, Section 1(b)(13) to (32). The Exchange proposes to remove the term “Off-Floor Broker-Dealer Order” in current Options 1, Section 1(b)(33) as that term was removed from rules in a prior rule change.¹²⁹ Additionally, the Exchange proposes to amend citations in various rules to amend them to conform to the revised numbering.¹³⁰

¹²⁸ See Securities Exchange Act Release No. 88213 (February 14, 2020), 85 FR 9859 (February 20, 2020) (SR-Phlx-2020-03) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate Rules From Its Current Rulebook Into Its New Rulebook Shell).

¹²⁹ SR-Phlx-2024-71 removes the term “off-floor broker-dealer.” See Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 (December 30, 2024) (SR-Phlx-2024-71). SR-Phlx-2024-71 is effective but not yet operative. SR-Phlx-2024-71 would be operative at the same time as this rule change as they are both part of the same technology migration.

¹³⁰ The Exchange proposes to remove citations to Options 2, Section 1(a), Options 4C, Section 2(b)(2), and Section 5(b), and Options 7, Section 1(c). The Exchange notes that the citations to “Streaming

Implementation

The Exchange will implement this rule change on or before December 20, 2025. Phlx would commence its implementation with a limited symbol migration and continue to migrate symbols over several weeks. The Exchange will issue an Options Trader Alert to Members to provide notification of the symbols that will migrate and the relevant dates.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹³¹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹³² in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest for the reasons discussed below.

Legging Order Functionality

The Exchange’s proposal to amend the Legging Order type currently located at Options 3, Section 7(b)(10) so that it is identical to rule text at ISE and MRX Options 3, Section 7(k) is consistent with the Act because it will harmonize the Legging Order functionality.

Providing that Legging Orders are treated as having no Public Customer capacity or Market Maker capacity on the single leg order book, regardless of being generated from Public Customer or Market Maker Complex Options Orders is consistent with the Act because a Legging Order is handled in the same manner as other orders on the single-leg order book except as otherwise provided in Options 3, Section 7(k), and is executed only after all other executable orders and quotes at the same price are executed in full. When a Legging Order is executed, the other component of the Complex Order on the Complex Order Book will be automatically executed against the best bid or offer on the Exchange. This rule text represents current System functionality. The Exchange believes that a Legging Order, created for the execution of a Complex Order, should not be afforded priority over resting orders and quotes on the single-leg order book, and therefore has determined to protect the priority on the single-leg order book of such resting orders and quotes. Miami International Securities Exchange, LLC (“MIAX”) similarly executes a derived order only after all other executable orders and quotes at the same price are executed in

Quote Trader” were incorrect and they are being corrected with this proposal.

¹³¹ 15 U.S.C. 78f(b).

¹³² 15 U.S.C. 78f(b)(5).

full.¹³³ ISE and MRX have identical rule text at Options 3, Section 7(k) with the exception of the Market Maker capacity language. ISE and MRX have identical rule text at Options 3, Section 7(k) except that Phlx will allocate executed orders pursuant to its allocation model at Phlx Options 3, Section 10(a)(1)(E). ISE and MRX allocate executed orders pursuant to their allocation models in ISE and MRX Options 3, Section 10. Legging Orders would receive the allocation applicable to all other remaining interest in 10(a)(1)(G).

Amending current Options 3, Section 7(b)(10)(A) which will be relocated to Options 3, Section 7(k)(1) to add “or both leg(s)” to the first sentence to provide that a Legging Order may be generated for each leg of a two-legged Complex Order is consistent with the Act because permitting both Legging Orders to execute as part of the execution of a particular Complex Options Order will allow more Complex Orders to execute while the price of the leg(s) will continue to be bounded by the price limits described in Options 3, Section 16(a).¹³⁴ Permitting Phlx to have two Legging Orders related to the same Complex Options Order to be generated where both legs can execute as part of the execution of a particular Complex Options Order is consistent with the Act as it will allow more Complex Orders to execute while the price of the leg(s) will continue to be bounded by the price limits described in proposed Options 3, Section 16(a), similar to ISE and MRX Options 3, Section 7(k)(1). Automatically generating Legging Orders, which will only be executed after all other executable interest at the same price (including non-displayed interest) is executed in full, will provide additional execution opportunities for Complex Orders, without negatively

¹³³ See MIAX Rule 518(a)(9)(iv). See also Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26) (Order Approving a Proposed Rule Change to Adopt New Rules to Govern the Trading of Complex Orders).

¹³⁴ Proposed Options 3, Section 16(a) provides that, as provided in Options 3, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO on the opposite side for the options series or any stock component, as applicable (“Do-Not-Trade-Through” or “DNTT”).

impacting any investors in the single-leg market. In fact, the generation of Legging Orders may enhance execution quality for investors in the single-leg market by improving the price and/or size of the PBBO and by providing additional execution opportunity for resting orders on the single-leg order book. The generation of Legging Orders is fully compliant with all regulatory requirements. In particular, Legging Orders are firm orders that will be displayed at the PBBO. Also, a Legging Order will be automatically removed if it is no longer displayable at the PBBO or if the net price of the Complex Order can no longer be achieved. Finally, the generation of Legging Orders is limited in scope, as they may be generated only for Complex Options Orders with two legs. Additionally, as noted herein, the Exchange will closely manage and curtail the generation of Legging Orders to assure that they do not negatively impact system capacity and performance. Today, two legging orders may be generated from the same Complex Options Order on ISE and MRX pursuant to Options 3, Section 7(k)(1).

The Exchange's proposal to add rule text at the end of proposed Options 3, Section 7(k)(4)(i) (current Options 3, Section 7(b)(10)(D)(i)) that provides, "or is at a price that locks or crosses the best bid or offer of another exchange" is consistent with the Act and will continue to prevent Phlx from locking or crossing an away market. Today, Phlx would re-price the Legging Order to avoid locking and crossing an away market. With the proposed amendment, Phlx will amend its rule text to adopt identical System behavior to ISE and MRX and would no longer re-price an order. Rather, Phlx will remove a Legging Order that is at a price that is no longer at the displayed best bid or offer on the single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange. As proposed, Options 3, Section 7(k)(4)(i) would remove the Legging Orders if the price of the Legging Order is no longer at the displayed best bid or offer on the single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange. Proposed Options 3, Section 7(k)(4)(i) is identical to ISE and MRX Options 3, 7(k)(4)(i).

Removing the rule text in current Options 3, Section 7(b)(1)(vi), ". . . upon receipt of a Qualified Contingent Cross Order which includes a component in which there is a Legging Order, an order that will trigger an auction under Exchange rules in a component in which there is a Legging Order (whether a buy order or a sell

order), or pursuant to Options 3, Section 13(f) a PIXL Order for the account of a public customer paired with an order for the account of a public customer" is consistent with the Act because it is not necessary to remove a Legging Order upon receipt of a QCC or C-to-C order because these orders trade immediately as a two-sided order without an auction timer and do not interact with the order book. Phlx's System behavior is the same as ISE's and MRX's system behavior in that they do not remove a Legging Order upon receipt of a QCC or C-to-C order.

Removing the rule text in current Options 3, Section 7(b)(10)(D)(viii) that states, ". . . if a Complex Order is marketable against the cPBBO where a Legging Order is present and has more than one leg in common with the existing Complex Order that generated the Legging Order" is consistent with the Act because as noted above, Phlx will permit a Complex Order to trade with two Legging Orders at the same time pursuant to proposed Options 3, Section 7(k)(3).¹³⁵ With this proposed change in Options 3, Section 7(k)(3), the rule text in current Options 3, Section 7(b)(10)(D)(viii) is no longer applicable and the Exchange proposes to remove it. The same applies to the rule text at current Options 3, Section 7(b)(10)(D)(ix).

Removing the rule text in current Options 3, Section 7(b)(10)(D)(x) that states, ". . . if a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO where a Legging Order is present but cannot be executed due to insufficient size in at least one of the components in the cPBBO" is consistent with the Act because the rule text because is unnecessary with this proposal. The Exchange notes that it does not believe it is necessary to remove Legging Orders where a Complex Order consisting of an unequal quantity of components is marketable against the cPBBO and a Legging Order is present, but cannot be executed due to insufficient size in at least one of the components in the cPBBO. In this case, the Legging Order can persist while the Complex Order rests on the Complex Order Book without conflict.

Removing the rule text in current Options 3, Section 7(b)(10)(D)(xi) that states, ". . . when the Legging Order is on the book at a price which is not at the minimum price increment and which is more aggressive than the same

¹³⁵ Options 3, Section 7(k)(3) states in the last sentence that, "[t]wo Legging Orders related to the same Complex Options Order can be generated, and both can execute as part of the execution of a particular Complex Options Order."

side PBBO, and an away market moves to lock the PBBO (which is also the NBBO)" is consistent with the Act because Phlx is amending its current System behavior and will display Legging Orders at actual prices. Today, Phlx generates Legging Orders at non-minimum price increments and displays at an inferior price to avoid locking or crossing another exchange as noted above. With this proposal, Phlx will amend that behavior and instead display at an actual price. If the Legging Order is at a price that is no longer at the displayed best bid or offer on the single-leg limit order book or is at a price that locks or crosses the best bid or offer of another exchange, the Legging Order will be removed pursuant to proposed Options 3, Section 7(k)(4)(i).

Complex Order Functionality

The proposed definitions in Options 3, Section 14(a) provide specific definitions, particularly as related to different strategies in order for members and member organizations to understand differences in processing for each of the strategies. The proposed definitions are consistent with the Act and protect investors and the general public because the definitions provide detail with respect to the various order types to inform market participants when determining which types of Complex Orders, they can trade on the Exchange in order to fully realize their trading and hedging potential.

The Exchange also believes that specifying that bids and offers for Complex Options Strategies may be expressed in \$0.01 increments, and that the options legs of complex strategies may be executed in \$0.01 increments and not in "any decimal price" is consistent with the Act as the proposed language provides market participants the applicable increment for all complex strategies. The proposed rule text at Options 3, Section 14(c)(1) is identical to ISE and MRX Options 3, Section 14(c)(1). The Exchange believes that smaller increments are appropriate for complex strategies that have a stock component since the stock leg of such strategies are permitted to trade in finer increments than permitted in the options market. The proposed rule therefore gives the Exchange flexibility to adopt minimum increments that are appropriate for the trading of these strategies. Moreover, specifying the minimum trading increments for complex will remove any potential confusion as to the application of Options 3, Section 3 to Complex Orders.

With respect to Exposure Complex Orders and Exposure Only Complex Orders, the Exchange believes it is

reasonable to provide an opportunity for investors to seek to have their orders exposed for an opportunity for price improvement. Furthermore, the Exchange believes that it is appropriate to give members the option to have such orders canceled if they are not eligible for exposure (*i.e.*, for Exposure Only Complex Orders) or have those orders entered on the complex order book (*i.e.*, for Exposure Complex Orders) based on their trading needs. The Exchange also believes that providing for an auction process whereby Complex Orders that improve upon the best price for the same options strategy on the complex order book benefits such Complex Orders by giving them an opportunity for price improvement, and that the exposure process specified in the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.¹³⁶ The proposed rule provides a fair opportunity for all members and member organizations to participate in the execution of such Complex Orders according to the existing execution priority rules for Complex Orders. In particular, the Exchange notes that the proposed rule does not exclude any market participants from initiating or participating in the Complex Order auction and that all of the material terms of the order are included in the broadcast message. Additionally, the proposed rule assures that the exposure process will not interrupt the processing of Complex Orders by terminating the auction upon the receipt of certain Complex Orders for the same complex strategy. Specifically, the exposure period for a Complex Order will end immediately upon the receipt of a Complex Order or quote for the same options strategy on either side of the market that is marketable against the complex order book or bids and offers for the individual legs, which assures that incoming orders are not delayed by the exposure process. The exposure period for a Complex Order will also be terminated and the exposed order will execute against interest received during the exposure period upon the receipt of a non-marketable Complex Order or quote for the same complex strategy on the same side of the market that would cause the price of the Complex Order to be outside of the best bid or offer for the same complex strategy on the complex order book, which protects the Complex Order being exposed from missing an execution opportunity. The Exchange further notes that investors are given the

ability to designate whether or not their Complex Orders should be exposed for price improvement if eligible. Thus, the proposed rule specifies a process designed to balance the needs of investors that prefer an immediate execution and those that prefer an opportunity for price improvement. ISE and MRX offer identical Exposure Complex Orders and Exposure Only Complex Orders at Options 3, Section 14(b)(13) and (14).

The Exchange proposes to amend the opening process by adopting a new opening process that is identical to ISE and MRX Supplementary Material .05 to Options 3, Section 14. The Complex Opening Price Determination is designed to provide an opportunity for members and member organizations to trade complex strategies in a transparent opening rotation at a price that is within the NBBO prices of the individual legs prior to uncrossing the complex strategy in the Complex Uncrossing Process to allow additional interest to participate. The Exchange believes that the Complex Opening Process, Complex Opening Price Determination, and Complex Uncrossing Process are each designed to perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest. The Exchange believes that this new process will allow for additional contracts to be included in the Potential Opening Price calculation leading to better price discovery and more contracts executing as part of the Complex Opening Price Determination process. With this proposal, when the interest does not match the size and there is more than one Potential Opening Price at which the interest may execute, the Exchange would calculate a Potential Opening Price using the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. As a result, more options contracts are likely to be executed at better prices than under the current rule. Finally, the proposed amendment considers the Boundary Price early in the Complex Opening Process. The Exchange will consider the Boundary Price while determining the Potential Opening Price, thereby enabling as many contracts as possible to trade sooner, which reduces risk for market participants awaiting executions. This proposal should continue to maximize the number of contracts executed, to the benefit of those members and member organizations participating in that complex strategy.

Furthermore, the Exchange believes that it is consistent with the protection of investors and the public interest to update its rules to clarify in Supplementary Material .07(a) to Options 3, Section 14 how the stock leg is considered when determining the best net price achievable from the bids and offers for the individual legs. The stock leg of Stock-Option Orders and Stock-Complex Orders are permitted to trade through the national best bid or offer pursuant to the QCT exemption under Regulation NMS. To reinforce that these complex strategies benefit from the QCT Exemption, the Exchange proposes in Supplementary Material .13 to Options 3, Section 14 to provide that members and member organizations may only submit Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders and quotes comply with the QCT exemption. Members and member organizations submitting Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the QCT exemption. The Exchange believes that explaining this in its rules will increase transparency around the operation of the Exchange to the benefit of members and member organizations and other market participants that trade on the Exchange. Finally, as described more fully above, Phlx's proposed Complex Order Functionality is identical to the Complex Order Functionality offered today on ISE on MRX. The proposal would continue to require members and member organizations to only submit Complex Orders and quotes in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders and quotes comply with the QCT exemption, as is the case today. ISE and MRX have identical rule text at Supplementary Material .07(a) to Options 3, Section 14 and Supplementary Material .13 to Options 3, Section 14.

Phlx's proposal to amend the order types in Options 8, Section 32 to describe the types of Complex Orders that would be available to be utilized on Phlx's trading floor in open outcry in light of the changes to Options 3, Section 14 is consistent with the Act because the proposed changes will permit Phlx floor participants to utilize the same Complex Order types that are permitted electronically on Phlx, as well as other types that are available for trading only on Phlx's trading floor. The Exchange's proposal will also harmonize the floor and electronic rules with respect to Complex Orders. Phlx market participants located on Phlx's

¹³⁶ See proposed Supplementary Material .01 to Options 3, Section 14. The proposed rule text is identical to ISE and MRX Supplementary Material .01 to Options 3, Section 14.

trading floor are subject to the rules in Options 8 which govern Phlx's trading floor. Phlx floor participants enter into open outcry to announce Complex Orders for execution. Those orders are processed in the same manner as all other orders announced in open outcry. Phlx electronic permit holders may utilize the electronic Complex Orders described in Options 3, Section 14.

Trading Halts

Amending Options 3, Section 9 to modify the manner in which the System handles Market Complex Orders during a trading halt is consistent with the Act as the proposed language considers the potential impacts to Market Complex Orders during a trading halt and ensures that the System cancels affected series but permits certain orders to be processed provided a Limit or Straddle State is not in effect. The proposed rule text is identical to rule text at ISE and MRX Options 3, Section 9(d)(2).

Simple Order Risk Protections

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(3) to consider counts for Complex Orders with options legs in addition to single-leg orders within (2) through (6) of Options 3, Section 15(a)(3) is consistent with the Act. Today, pursuant to the Market Wide Risk Protection rule, the Exchange's System maintains one or more counting programs for each member organization that count orders entered and contracts traded on Phlx. With this proposal, the Market Wide Risk Protection will continue to maintain separate counts, over rolling time periods specified by the member or member organization for each count that it maintains today as well as complex execution counts for Complex Option Orders, Stock-Option and Stock-Complex Orders.¹³⁷ This risk protection will continue to reduce risk associated with system errors or market events that may cause members and member organizations to send a large number of orders, or receive multiple, automatic executions, before they can adjust their exposure in the market. Without adequate risk management tools, such as those proposed in this filing, members

¹³⁷ The counts would include: (1) the total number of orders entered in the regular order book; (2) the total number of Complex Option Orders entered in the complex order book; (3) the total number of Stock-Option and Stock-Complex Orders entered into the complex order book; (4) the total number of contracts traded in regular orders; (5) the total number of contracts traded in Complex Options Orders; and (6) the total number of contracts traded in Stock-Option and Stock-Complex Orders entered into the complex order book.

and member organizations could reduce the amount of order flow and liquidity that they provide on Phlx. As a result, the functionality promotes just and equitable principles of trade.

Complex Order Risk Protections

The Exchange's proposal to adopt Complex Order Protections at Options 3, Section 16, in lieu of the proposed protections in Phlx Options 3, Section 16, is consistent with the Act. Proposed Options 3, Section 16 is identical to ISE and MRX Options 3, Section 16.

The Exchange's proposal to replace the ACE Parameter with a Price Limits protection will protect investors and the general public as this protection will prevent the legs of a complex strategy from trading significantly outside the market for the individual legs. The proposed risk protection limits the amount that the legs of a complex strategy may be executed at prices inferior to the prices available on other exchanges trading the same options series. In particular, the legs of a complex strategy cannot trade through the national best bid or offer for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series, or underlying basis.¹³⁸

The Exchange's proposal to replace Phlx's Vertical Spread Protection with a new Vertical Spread Protection at proposed Options 3, Section 16(b)(1), that is identical to ISE and MRX Options 3, Section 16(b)(1) will protect investors and the general public as the new risk protection will reject Vertical Spread orders when entered with a net price of less than zero (minus a pre-set value) and will prevent the execution of a Vertical Spread order at a price that is less than zero (minus a pre-set value) when entered as a market order to sell. The System will also reject a Vertical Spread order or quote when entered with a net price greater than the value of the higher strike price minus the lower strike price (plus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a Market Order to buy. The proposed Vertical Spread Protection would protect investors and the general public by preventing the potential execution of certain complex strategies outside of specified price parameters.

¹³⁸ See proposed Options 3, Section 16(a).

The Exchange's proposal to adopt a Calendar Spread Protection at proposed Options 3, Section 16(b)(2) that would replace the Time Spread in current Options 3, Section 16(a)(ii), which is similar, will protect investors and the general public as the new risk protection will reject a Calendar Spread order when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a Calendar Spread order at a price that is less than zero (minus a pre-set value) when entered as a market order to sell. The proposed Calendar Spread Protection would protect investors and the general public by preventing the potential execution of certain complex strategies outside of specified price parameters. The amended Calendar Spread Protection will be identical to ISE and MRX Options 3, Section 16(b)(2).

The Exchange's proposal to adopt a revised Butterfly Spread Protection and a revised Box Spread Protection at proposed Options 3, Section 16(b)(3) and (4) will protect investors and the general public as these new protections will reject these strategies outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. The addition of these risk protections will provide Phlx members and member organizations the same protections afforded to ISE and MRX Members.¹³⁹ The amended Butterfly Spread Protection and Box Spread Protection are identical to ISE and MRX Options 3, Section 16(b)(3) and (4). The revised Butterfly Spread Protection and Box Spread Protection would protect investors and the general public by preventing the potential execution of certain complex strategies outside of specified price parameters.

The Exchange's proposal to adopt a Complex Order Price Protection at proposed Options 3, Section 16(c)(1) will protect investors and the general public by limiting the amount by which the net price of an incoming Limit Complex Order to buy may exceed the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg, and by which the net price of an incoming Limit Complex Order to sell may be below the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg. Limit Complex Orders that exceed the pricing limit will be rejected. Adopting a Complex Order

¹³⁹ See ISE and MRX Options 3, Section 16(b)(3) and (4).

Price Protection will protect investors and the general public by preventing erroneous executions by rejecting orders priced too far through the market. The proposed Complex Order Price Protection at Options 3, Section 16(c)(1) is identical to ISE and MRX Options 3, Section 16(c)(1).

The Exchange's proposal to adopt a Size Limitation protection at proposed Options 3, Section 16(c)(2) will protect investors and the general public as this protection will limit the number of contracts (and shares in the case of a Stock-Option Strategy or Stock-Complex Strategy) any single leg of an incoming Complex Order may specify. Orders or quotes that exceed the maximum number of contracts (or shares) will be rejected. Limiting the number of contracts an incoming order may specify will protect investors and the general public. The proposed Size Limitation at Options 3, Section 16(c)(2) is identical to ISE and MRX Options 3, Section 16(c)(2).

The Exchange's proposal to adopt a Price Level Protection at proposed Options 3, Section 16(c)(3) will protect investors and the general public as the Price Level Protection will limit the number of price levels at which an incoming Complex Order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex Orders will be executed at each successive price level until the maximum number of price levels is reached. On any component leg where the maximum number of price levels has been reached, the protection will be triggered and any balance will be canceled. The Exchange believes that limiting the number of price levels at which an incoming order will execute appropriately balances the interests of investors seeking execution of their orders and the Exchange's obligations to provide a fair and orderly market. The proposed Price Level Protection at Options 3, Section 16(c)(3) is identical to ISE and MRX Options 3, Section 16(c)(3).

Providing transparent information at Options 3, Section 16(d) and (3) concerning the execution, reporting and handling of Complex Orders in Stock-Option Strategies and Stock-Complex Strategies as well as the short sale price text in Rule 201 of Regulation SHO is consistent with the Act because the Exchange is providing notice to its members and member organizations that it will only continue to consider prices that comply with the short sale price test in Rule 201 of Regulation SHO. This rule text adds transparency to the

Exchange's Rules. Further, the proposed rule text at Options 3, Section 16(d) and (3) is identical to ISE and MRX Options 3, Section 16(d) and (3).

The Exchange's proposal to amend Options 3, Section 7(d)(2), related to Immediate-or-Cancel orders, to note, similar to ISE and MRX Options 3, Section 7(d)(2), that an IOC order entered by a Market Maker through the SQF protocol will not be subject to the Complex Order Price Protection as defined in Options 3, Section 16(c)(1) for Complex Orders is consistent with the Act. The Exchange has elected not to apply the Complex Order Price Protection on IOC orders entered through SQF as it does for IOC orders entered through FIX because only Market Makers utilize SQF to enter IOC orders. Market Makers are professional traders with their own risk settings. FIX, on the other hand, is utilized by all market participants who may not have their own risk settings, unlike Market Makers. Market Makers utilize IOC orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. The Exchange understands that proper risk management, including using these IOC orders to offload risk, is vital for Market Makers. Market Makers handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange. Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker's erroneous order from being entered. The Exchange believes that Market Makers, unlike other market participants, have the ability to manage their risk when submitting IOC orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations that the Exchange imposes on these participants, unlike other market participants. The Exchange believes that allowing Market Makers to submit IOC orders through their preferred protocol increases their efficiency in submitting such orders and thereby allows them to maintain quality markets to the benefit of all market participants that trade on the Exchange. For the foregoing reasons, the Exchange has opted to not offer the Complex Order Price Protection for IOC orders entered through SQF because Market Makers have more sophisticated infrastructures than other market participants and are able to manage their risk.

Order Routing

The Exchange's proposal to amend Options 5, Section 4(a) is consistent with the Act as the Exchange does not route the stock portion of an options order, rather NES routes the stock leg. Options 5, Section 4 applies only to options orders. The Exchange proposes to remove this sentence to conform the rule text to ISE Options 5, Section 4(a) rule text.

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.

Legging Order Functionality

Phlx's proposal to amend its Legging Orders to harmonize the order type to ISE and MRX Options 3, Section 7(k) does not impose an undue burden on intra-market competition because the amended rules will apply uniformly to all market participants.

Additionally, this proposal does not impose an undue burden on inter-market competition as other options exchanges may adopt Legging Orders and similar rules for the generation of such orders.

Complex Order Functionality

The Exchange does not believe that the adoption of Complex Order functionality that is identical to ISE and MRX Complex Order functionality will impose any burden on competition, rather the Exchange believes that it will enhance competition among the various markets for Complex Order execution, potentially resulting in more active Complex Order trading on all exchanges. With respect to intra-market competition, all members and member organizations will be permitted to submit Complex Orders into Phlx. Further, the Exchange will uniformly apply the proposed rules to any member or member organization that submits a Complex Order into Phlx.

The Exchange does not believe its proposal to offer Complex Order Functionality will impose an undue burden on inter-market competition as various other options markets offer Complex Order functionality.¹⁴⁰

Trading Halts

The proposed amendment to Options 3, Section 9 to modify the manner in which the System handles Market

¹⁴⁰ See e.g., Cboe Exchange, Inc. Rule 5.33 and Miami International Securities Exchange, LLC Rule 518.

Complex Orders during a trading halt does not impose an undue burden on intra-market competition as all members and member organizations would be uniformly subject to the proposed rule.

The proposed amendment to Options 3, Section 9 to modify the manner in which the System handles Market Complex Orders during a trading halt does not impose an undue burden on inter-market competition as other options markets may similarly handle their Complex Orders as proposed by Phlx.

Simple Order Risk Protections

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(3) to consider counts for Complex Orders with options legs in addition to single-leg orders within (2) through (6) of Options 3, Section 15(a)(3) does not impose an undue burden on intra-market competition as all members and member organizations would be uniformly subject to the proposed rule.

The Exchange's proposal to amend its Market Wide Risk Protection within Options 3, Section 15(a)(3) to consider counts for Complex Orders with options legs in addition to single-leg orders within (2) through (6) of Options 3, Section 15(a)(3) does not impose an undue burden on inter-market competition as other options markets have similar complex order risk protections.¹⁴¹

Complex Order Risk Protections

The Exchange's proposal to adopt Complex Order Protections at Options 3, Section 16 does not impose an undue burden on intra-market competition as all members and member organizations would be uniformly subject to the proposed rule.

The Exchange's proposal to adopt Complex Order Protections at Options 3, Section 16 does not impose an undue burden on inter-market competition as other options markets have similar complex order risk protections.¹⁴²

Order Routing

The Exchange's proposal to amend Options 5, Section 4(a) related to routing does not impose an undue burden on intra-market competition as all members and member organizations would be uniformly subject to the Routing Rule.

The Exchange's proposal to amend Options 5, Section 4(a) is consistent with the Act as the Exchange does not

impose an undue burden on inter-market competition as ISE has an identical routing rule.¹⁴³

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 Act¹⁴⁴ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁴⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic Comments

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-Phlx-2025-17 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange

¹⁴³ See ISE Options 5, Section 4.

¹⁴⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁴⁵ 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.

Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-Phlx-2025-17. 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 submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also 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-2025-17 and should be submitted on or before May 12, 2025.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴⁶

Sherry R. Haywood,

Assistant Secretary.

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DEPARTMENT OF STATE

[Public Notice: 12700]

Notice of Determinations; Culturally Significant Objects Being Imported for Exhibition—Determinations: “World of the Terracotta Warriors: New Archaeological Discoveries in Shaanxi in the 21st Century” Exhibition

SUMMARY: Notice is hereby given of the following determinations: I hereby determine that certain objects being imported from abroad pursuant to an agreement with their foreign owners or

¹⁴⁶ 17 CFR 200.30-3(a)(12).

¹⁴¹ See ISE and MRX Options 3, Section 15(a)(1)(C).

¹⁴² See ISE and MRX Options 3, Section 16.