SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–103667; File No. SR–Phlx–2025–35]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend PIXL and Adopt New Auctions

August 8, 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 August 5, 2025, Nasdaq PHLX LLC (''Phlx'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

In connection with a technology migration to an enhanced Nasdaq, Inc. (''Nasdaq'') functionality, to adopt the following new auctions: Block Order Mechanism, Facilitation Mechanism and Solicited Order Mechanism in Options 3, Section 11. The Exchange also proposes to permit Customer Cross Orders at Options 3, Section 12(a) and Complex Cross Orders at Options 3, Section 12(b) to transact outside of the current Price Improvement XL (''PIXL'') mechanism where these orders currently transact. The Exchange proposes to amend Qualified Contingent Cross (''QCC'') Orders and Complex QCC Orders at Options 3, Section 12 and Options 3, Section 30 to align these rules to ISE Options 3, Section 12(a) and (b). The Exchange proposes to amend the PIXL rules at Options 3, Section 13 to align certain functionality to Nasdaq ISE LLC (''ISE'') PIM at Options 3, Section 13. Finally, the Exchange proposes amendments to Options 3, Section 7, Types of Orders and Order and Quote Protocols; Options 3, Section 10, Electronic Execution Priority and Processing in the System; Options 3, Section 14, Complex Orders; Options 3, Section 16. Complex Order Risk Protections; and Options 3, Section 22, Limitations on Order Entry, in connection with the aforementioned changes. The Exchange also proposes an amendment to Options 2, Section 10, Directed Orders and Options 5, Section 4, Order Routing.

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

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

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

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

1. Purpose

In connection with a technology migration to an enhanced Nasdaq functionality which will result in higher performance, scalability, and more robust architecture, the Exchange proposes to amend and adopt functionality identical to the functionality on ISE.

The Exchange proposes to adopt the following new auctions: Block Order Mechanism, Facilitation Mechanism and Solicited Order Mechanism in Options 3, Section 11. The proposed Block Order Mechanism at Options 3, Section 11(a) is identical to ISE's Block Order Mechanism at ISE Options 3, Section 11(a). Phlx's proposed Facilitation Mechanism and Solicited Order Mechanism at Options 3, Section 11 are substantively identical to ISE's Facilitation Mechanism and Solicited Order Mechanism at Options 3, Section 11. With respect to Phlx's proposed Facilitation Mechanism and Solicited Order Mechanism, the Exchange will allocate interest pursuant to Phlx Options 3, Section 10[3] whereas ISE allocates pursuant to its allocation rules at Options 3, Section 10.[4]

The Exchange also proposes relocating its Customer Cross Orders at Options 3, Section 12(a) and Complex Cross Orders at Options 3, Section 12(b) to transact outside of the current PIXL mechanism where these orders currently transact. The Exchange proposes to adopt rule text that is identical to ISE Options 3, Section 12(a) and (b).[5]

The Exchange proposes to amend its Qualified Contingent Cross or ''QCC'' Orders and Complex QCC Orders at Options 3, Section 12 and Options 3, Section 30 to adopt rule text that is identical to ISE Options 3, Section 12(a) and (b). The proposed changes to QCC Orders at Options 3, Section 12 and Complex QCC Orders at Options 3, Section 12 would apply equally to electronic QCC Orders and Floor QCC Orders. The Exchange is not amending the System handling of electronic QCC Orders. With respect to Floor QCC

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

[2] 17 CFR 240.19b–4.

[3] Phlx recently amended Options 3, Section 10. *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.

[4] Phlx's allocation model is different than ISE's in that Phlx allocates to Market Makers before allocating to all other market participants pursuant to Phlx Options 3, Section 10 while ISE does not have an additional allocation to Market Makers before all other market participants pursuant to ISE Options 3, Section 10.

[5] Phlx rules are identical to ISE rules except for the use of certain terms. Phlx's Public Customer, defined at Phlx Options 1, Section 1(b)(46), provides that the term ''Public Customer'' means a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Options 1, Section (b)(45). This term has the same meaning as ISE's Priority Customer, defined at ISE Options 1, Section 1(a)(37). The term ''Priority Customer'' means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). Also, Phlx utilizes the terms ''member'' and ''member organization.'' The term ''member'' means a permit holder which has not been terminated in accordance with the By-Laws and these Rules of the Exchange. A member is a natural person and must be a person associated with a member organization. Any references in the rules of the Exchange to the rights or obligations of an associated person or person associated with a member organization also includes a member. *See* General 1, Section 1(a)(16) The term ''member organization'' means a corporation, partnership (general or limited), limited liability partnership, limited liability company, business trust or similar organization, transacting business as a broker or a dealer in securities and which has the status of a member organization by virtue of (i) admission to membership given to it by the Membership Department pursuant to the provisions of General 3, Sections 5 and 10 or the By-Laws or (ii) the transitional rules adopted by the Exchange pursuant to Section 6–4 of the By-Laws. References herein to officer or partner, when used in the context of a member organization, shall include any person holding a similar position in any organization other than a corporation or partnership that has the status of a member organization. *See* General 1, Section 1(a)(17). ISE utilizes the term ''Electronic Access Member'' which is the equivalent of Phlx's term ''member organization.'' The term ''Electronic Access Member'' or ''EAM'' means a Member that is approved to exercise trading privileges associated with EAM Rights. *See* General 1, Section 1(a)(6). The Exchange utilizes the term ''identical'' throughout this rule proposal despite these definitional differences.

Orders, the System handling will remain the same except that the Exchange is amending the minimum increments at proposed Options 8, Section 30(e).

The Exchange proposes to amend the PIXL rules at Options 3, Section 13 so that its rules are similar to ISE PIM at Options 3, Section 13.[6]

The Exchange proposes amendments to Options 3, Section 7, Types of Orders and Order and Quote Protocols, to adopt order types identical to ISE Options 3, Section 7.

The Exchange proposes adopting applicability language in Options 3, Section 10, Electronic Execution Priority and Processing in the System, at subsection (b) that is identical to ISE Options 3, Section 10(a)(2).

The Exchange proposes adopting a Complex Facilitation Order type and a Complex SOM Order at Options 3, Section 14(b)(16) and (17) that are identical to order types at ISE Options 3, Section 14(b)(16) and (17).

The Exchange proposes to make non-substantive technical amendments at Options 3, Section 15, Simple Order Risk Protections.

The Exchange proposes to amend Options 3, Section 16, Complex Order Risk Protections, at subsection (b), to add proposed new order types identical to the rule text at ISE Options 3, Section 16(b).

The Exchange proposes to amend Options 3, Section 22, Limitations on Order Entry, to add the new auctions proposed herein to the rule text so that the rule text is identical to ISE Options 3, Section 22.

The Exchange proposes to amend Options 8, Section 30, Crossing, Facilitation and Solicited Orders, to amend its Floor QCC rules to align to the changes in its electronic QCC Order rule at Options 3, Section 12. The Exchange notes that while Phlx has a trading floor, ISE does not have a trading floor. The Options 3 rule amendments only apply to electronic orders and do not otherwise amend the trading floor rules which are located in Options 8. Specifically, the proposed amendments to Options 8, Section 30, related to the trading floor, would align to proposed Options 3, Section 12.[7]

The Exchange also proposes an amendment to Options 2, Section 10, Directed Orders, and Options 5, Section 4, Order Routing. Each of the aforementioned rule changes are described below.

Options 2, Section 10

The Exchange previously amended[8] Options 2, Section 10(a)(ii) related to Directed Orders to amend the sentence to replace the words ''Exchange's best price'' with ''better of the internal PBBO or the NBBO.'' The Exchange previously conformed the rule text with language throughout the Options 3 trading rules that describe the Exchange's best price with references to the internal PBBO and NBBO. Pursuant to Options 3, Section 5, the System automatically executes eligible orders using the Exchange's displayed best bid and offer (''PBBO'') or the Exchange's non-displayed order book (''internal PBBO'') if there are non-displayed orders on the order book or the best bid and/or offer on the Exchange has been repriced pursuant to Options 3, Section 5(d) or Options 3, Section 4(b)(6) which describes trade-through compliance and locked and crossed markets. At that time, the Exchange inadvertently did not amend Options 2, Section 10(a)(iii) in a similar manner. Options 2, Section 10(a)(iii) describes when the opposite side of the market from the Directed Order is inferior to the internal PBBO or the NBBO. The Exchange should have amended Options 2, Section 10(a)(ii) in a similar manner. At this time, the Exchange proposes to amend the rule text of Options 2, Section 10(a)(iii) to state, ''When the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Lead Market Maker, RSQT, or SQT on the opposite side of the market from the Directed Order is inferior to the internal PBBO or the NBBO at the time of receipt of the Directed Order, the Directed Order shall be automatically executed and allocated to those quotations and orders at the NBBO in accordance with Options 3, Section 10(a)(1).''

Options 3, Section 11

Block Order Mechanism

The Exchange proposes to adopt several auctions within Options 3, Section 11, which is currently reserved. The Exchange proposes to entitle Option 3, Section 11 ''Auction Mechanisms.''

The Exchange proposes adopting a new Block Order Mechanism in Options 3, Section 11(a). Today, Phlx does not have a Block Order Mechanism. The proposed Block Order Mechanism in Options 3, Section 11 would be identical to ISE's Block Order Mechanism at Options 3, Section 11(a).

The proposed mechanism will provide a means for handling ''block-sized orders'' (*i.e.,* orders for fifty (50) contracts or more), and will be identical to the Block Order Mechanism currently offered by the Exchange's affiliate, ISE. Specifically, proposed Options 3, Section 11(a) will state that the Block Order Mechanism is a process by which a member can obtain liquidity for the execution of block-size orders (''Block Order''). The Block Order Mechanism is for single leg transactions only. As discussed above, Options 3, Section 11 will further define block-size orders as orders for fifty (50) contracts or more. These provisions are consistent with ISE Options 3, Section 11(a).

Proposed subparagraph (a)(1) of Options 3, Section 11 would provide that upon entry of an order into the Block Order Mechanism, a broadcast message would be sent that includes the series, and may include price, size and/

[6] The Exchange notes that it will adopt certain aspects of ISE's PIM but not all aspects of the rule. Phlx proposed PIXL entry checks at Options 3, Section 13(b)(1)–(3) are identical to ISE Options 3, Section 13(b)(1)–(3). Phlx proposed Options 3, Section 13(b)(1)(A) related to PAN responses is substantially similar to Options 3, Section 13(d)(7). Phlx Options 3, Section 13(b)(1)(B) related to Surrender proposes a configurable Surrender provision that is substantially similar to ISE Options 3, Section 13(e)(5)(iii). Phlx proposed Options 3, Section 13(b)(1)(C) concerning a PAN proposes to disseminate ''price'' in addition to side, size, and options series similar to ISE Options 3, Section 13(c). Phlx proposed Options 3, Section 13(b)(1)(H) regarding capping a PAN response size is substantially similar to ISE Options 3, Section 13(c)(2). The proposed Complex early termination provisions in Phlx Options 3, Section 13(b)(2)(C)(2) are identical to ISE Options 3 Sections 13 (e)(4)(iv)(C), (e)(4)(iv)(D), (e)(5)(iv). The proposed trade halt rule text at Phlx Options 3, Section 13(b)(3) is substantially similar to Options 3, Section 13(d)(5). Phlx proposed rule text to amend the System allocation to the Initiating member after Public Customer orders have been allocated in Options 3, Section 13(b)(5)(B)(i) is identical to ISE Options 3, Section 13(d)(3) and Options 3, Section 13(e)(5)(iii).

[7] In 2011, Phlx proposed to establish a Floor QCC based on the precedent of ISE's QCC Order. PHLX previously established an electronic QCC Order set forth in PHLX Rule 1080(o). *See* Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR–Phlx–2011–047). As part of that rule change, Phlx analyzed the application of Section 11(a) to various Exchange systems and order types. In analyzing Floor QCC Orders, the Exchange has concluded that the entry and execution of Floor QCC Orders raises no novel issues under Section 11(a) and the rules thereunder from a compliance, surveillance or enforcement perspective. In other words, Exchange Floor Brokers are currently required to comply and the Exchange surveils for compliance with Section 11(a) and the rules thereunder when using Exchange systems to effect transactions using existing order types, and they will be required to comply with Section 11(a) and the rules thereunder when using the Floor QCC Order. *See* Securities Exchange Act Release No. 64415 (May 5, 2011), 76 FR 27732 (May 12, 2011) (SR–Phlx–2011–56) (Notice of Filing of Proposed Rule Change To Establish a Qualified Contingent Cross Order for Execution on the Floor of the Exchange).

[8] *See* Securities Exchange Act Release No. 100599 (July 25, 2024), 89 FR 61550 (July 31, 2024) (SR–Phlx–2024–26) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Options 2, Sections 5 and 10 and Options 3, Section 15).

or size, as specified by the member [9] entering the Block Order, and members would be given an opportunity to enter Responses with the prices and sizes at which they would be willing to trade with the Block Order.[10] This proposal is identical to ISE's process at Options 3, Section 11(a)(1). The Exchange also proposes to add identical definitions of ''broadcast message'' and ''Response'' within this rule. Specifically, for purposes of the Rule, a ''broadcast message'' will mean an electronic message that is sent by the Exchange to all members, and a ''Response'' will mean an electronic message that is sent by members in response to a broadcast message. Further, Responses represent non-firm interest that can be canceled or modified at any time prior to execution. Responses are not displayed to any market participants. Also, for purposes of this Rule, the time given to members to enter Responses for any of the below auction mechanisms shall be designated by the Exchange via an Options Trader Alert, but no less than 100 milliseconds and no more than 1 second.[11] These definitions would apply to any auction in Options 3, Section 11.[12]

Proposed subparagraph (a)(2) would provide that at the conclusion of the time given to members entering Responses, either an execution would occur automatically, or the Block Order would be cancelled. Proposed subparagraph (a)(2)(A) to Options 3, Section 11 explains the price at which orders entered into the Block Order Mechanism are executed. Specifically, Responses, orders, and quotes would be executed at a single block execution price that is the price for the Block Order at which the maximum number of contracts can be executed consistent with the member's instruction. Bids (offers) on the Exchange at the time the Block Order is executed that are priced higher (lower) than the block execution price, as well as Responses that are priced higher (lower) than the block execution price, would be executed in full at the block execution price up to the size of the Block Order. This is identical to how ISE's Block Orders are priced at execution pursuant to ISE Options 3, Section 11(a)(2)(A).

Proposed subparagraph (a)(2)(B) describes the proposed auction allocation methodology. At the block execution price, Public Customer Orders and Public Customer Responses will be executed first in price time priority, and then quotes, non-Public Customer Orders, and non-Public Customer Responses will participate in the execution based upon the percentage of the total number of contracts available at the block execution price that is represented by the size of the quote, non-Public Customer Order, or non-Public Customer Response. This is functionally identical to ISE's Block Order Mechanism allocation methodology.[13] Identical to ISE, the proposed Block Order Mechanism is designed to provide an opportunity for members to receive liquidity for their Block Orders, and will therefore trade at a price that allows the maximum number of contracts of the Block Order to be executed against both Responses entered to trade against the order and unrelated interest on the Exchange's order book.

Example 1

A member enters a Block Order to buy 100 contracts at $1.00
Response A to sell 50 contracts at $0.90
Response B to sell 40 contracts at $0.95

The block execution price would be 90 contracts at $0.95 as this is the price at which the maximum number of contracts could be executed. The Block Order and both Responses would then be executed at this single block execution price. Responses A and B would be executed in full since there is sufficient size to execute both Responses against the Block Order.

If two other members also enter Responses C (a Public Customer) and D (a Firm), to sell at $0.98 for 10 contracts each, the block execution price would be $0.98 as additional contracts could be executed at that price. In that instance, Responses A and B, which are priced better than the block execution price, would be executed in full at $0.98, while Responses C and D, which are priced at the block execution price, would participate in accordance with the allocation methodology described in the proposed rule—*i.e.,* the remaining 10 contracts would go to Response C, which is the Public Customer Response.

The Exchange proposes in subparagraph (a)(3) that if a trading halt is initiated after an order is entered into the Block Order Mechanism, such auction will be automatically terminated without execution. ISE Options 3, Section 11(a)(3) has identical rule text. Lastly, the Exchange proposes to amend Options 3, Section 7(v) to add Block Orders to the list of order types and provide, ''A Block Order is an order entered into the Block Order Mechanism as described in Options 3, Section 11(a).'' ISE Options 3, Section 7(v) identically defines Block Order as an order type.

The Exchange also proposes to note that at proposed Supplementary .05 to Options 3, Section 11 that orders and Responses may be entered into the Block Order Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price pursuant to Options 3, Section 11 (a)(2)(A) may also receive executions at penny increments. ISE has identical language at Supplementary .05 to Options 3, Section 11.

Facilitation Mechanism

The Exchange proposes to amend Options 3, Section 11(b) and (c) to adopt a new proposed Facilitation Mechanism. Today, Phlx does not offer a Facilitation Mechanism. The proposed Facilitation Mechanism will be substantively identical to ISE's Facilitation Mechanism except that the Facilitation Mechanism will allocate pursuant to Phlx Options 3, Section 10 [14] as explained below.

The proposed Facilitation Mechanism will provide a Phlx member with the ability to enter a block size order and execute the order as principal. A Phlx member is not otherwise permitted to execute an agency order as principal unless the order is first permitted to interact with other interest on the Exchange pursuant to Options 3, Section 22(b).[15] Proposed Options 3,

[9] The term ''member'' means a permit holder which has not been terminated in accordance with the By-Laws and these Rules of the Exchange. A member is a natural person and must be a person associated with a member organization. Any references in the rules of the Exchange to the rights or obligations of an associated person or person associated with a member organization also includes a member. *See* Phlx General 1, Section 1(a)(16). Of note, ISE General 1, Section 1(a)(13) defines a ''Member'' as to mean an organization that has been approved to exercise trading rights associated with Exchange Rights.

[10] The Exchange notes that similar to current ISE functionality, the proposed functionality on Phlx will allow all members, except for the initiating member, to respond to the Block Order Mechanism.

[11] *See* proposed Options 3, Section 11. *See also* ISE Options 3, Section 11.

[12] The Exchange is proposing a Facilitation Mechanism, Complex Facilitation Mechanism, Solicited Order Mechanism and Complex Solicited Order Mechanism within Options 3, Section 11 within this proposal.

[13] *See* ISE Options 3, Section 11(a)(2)(B). The reference to ''Professional'' interest in ISE's rule refers to non-Priority Customer interest as compared to Priority Customer interest. *See* ISE Options 1, Section 1(a)(39) which defines a Professional Order as an order that is for the account of a person or entity that is not a Priority Customer.

[14] *See supra* note 3.

[15] Currently, Options 3, Section 22(b) provides that member organizations may not execute as principal against orders on the Limit Order book they represent as agent unless: (i) agency orders are first exposed on the Limit Order book for at least 1 second; (ii) the member has been bidding or offering on the Exchange for at least 1 second prior to receiving an agency order that is executable against such order; (iii) the orders are entered into Price Improvement XL or ''PIXL'' pursuant to Options 3, Section 13; (iv) the orders are entered into the Complex Order Live Auction or ''COLA'' pursuant to Options 3, Section 14(e); or (v) the orders are entered into the Qualified Contingent

Section 11(b) would provide for a Facilitation Mechanism that would permit a Phlx member to execute a transaction wherein the member seeks to facilitate a block-size order it represents as agent (''agency order''), and/or a transaction wherein the member solicited interest to execute against a block-size order it represents as agent (''Facilitation Order''). This mechanism allows members the flexibility to represent a transaction where the member is facilitating only a portion of the order and has solicited interest from other parties for the other portion of the order. Members must be willing to execute the entire size of orders entered into the Facilitation Mechanism.

With respect to orders entered into the Facilitation Mechanism, the orders are required to be entered at a price that is (A) equal to or better than the NBBO and the internal PBBO [16] on the same side of the market as the agency order unless there is a Public Customer order on the BBO or internal PBBO on the same side of the market as the agency order, in which case the order must be entered at an improved price over the Public Customer order; and (B) equal to or better than the ABBO on the opposite side. Orders that do not meet these requirements would not be eligible for the Facilitation Mechanism and would be rejected.[17]

Thereafter, once an order is entered into the Facilitation Mechanism, the Exchange will send a facilitation broadcast to crowd participants. The broadcast message is anonymous and informs participants of the proposed transaction. The broadcast message would include the series, price and size of the agency order, and whether it is to buy or sell. Members would be given an opportunity to enter Responses with the prices and sizes at which they want to participate in the facilitation of the order.[18] The recipients of the broadcast would have a designated amount of time, set by the Exchange,[19] to respond.[20] Responses may be priced at the price of the order to be facilitated or at a better price and will only be considered up to the size of the order to be facilitated. Responses must be entered at a price that is equal to or better than the better of the internal PBBO or the NBBO: (1) on the same side of the market at the start of the Facilitation Mechanism; and (2) on the opposite side of the market at the time the Response is received.[21]

Example 2

Assume the NBBO and the Phlx PBBO is $1.00 bid and $2.00 offered and the CBOE is the next best exchange quote with $0.75 bid and $2.25 offered. An agency order to buy 50 contracts at $2.05 is entered into the Facilitation Mechanism by the initiating member with a contra-side sell order.

If no responses are received, the agency order executes with the resting 50 lot quote @ $2.00. In this instance, the agency order is able to be crossed with the contra side Phlx PBBO because in execution, the resting 50 lot quote @ $2.00 is able to provide price improvement to the agency order.

By utilizing the better of the internal PBBO or the NBBO at the start of the auction, the Exchange believes that better priced Responses would be permitted to trade with the order to be facilitated. This proposal would permit a Response to these auctions to be entered at a price that is equal to or better than the better of the internal PBBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the Response is received, thereby preventing potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the order to be facilitated. Other Responses to that auction may be entered at a price that improves the price of the order to be facilitated, but are inferior to such other quote/order Responses which improved upon the internal PBBO or NBBO. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal PBBO/NBBO while not fully satisfying the agency order, thus preventing Responses from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the Response because only interest on the same side of the Response will be eligible to trade with the auctioned order. The proposed amendments would allow orders to be facilitated to potentially trade at improved prices.

Example 3

Assume the NBBO is $1.10 bid and $1.35 offered while the internal PBBO is $1.15 bid and $1.30 offered. An agency order to sell 100 contracts at $1.18 is entered into the Facilitation Mechanism by the initiating member.

If Order 1 is entered to buy 1 contract @ $1.25 and then Auction Response 1 is entered to buy 100 contracts at $1.20. With the entry check modification, Auction Response 1 is accepted based on the market at the start of the auction of $1.15 bid and $1.30 offered.

Auction would conclude and partially trade with Order 1 at $1.25 and then trade the remainder of the agency order at a price of $1.20 based off of the acceptance of Auction Response 1.

At the end of the period given for the entry of Responses, the agency order would be automatically executed.[22] With respect to the allocation of the Facilitation Order, Public Customer Orders and Public Customer Responses to buy (sell) at the time the Facilitation Order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price, unless there is sufficient size to execute the entire Facilitation Order at a better price. The Exchange believes that this proposal will both protect Public Customer limit orders on the order book and provide Public Customers with the benefit of price improvement. Thereafter, non-Public Customer Orders and non-Public Customer Responses to buy (sell) and Market Maker quotes at the time the Facilitation Order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the order being facilitated a better price for the number of contracts associated with such higher bids (lower offers). The Exchange believes that the proposal is consistent with the public interest, and that it promotes just and equitable principles of trade by ensuring that Market Makers will be able to compete in a fair and equitable manner, based on the competitiveness of their quotes, for that portion of an order remaining after Public Customer interest and the member's facilitation allocation. The Facilitation Order will be cancelled at the end of the exposure period if an execution would take place at a price that is inferior to the Exchange best bid (offer), or if there is a Public Customer Order on the same side at the same price as the agency order unless the Facilitation Order can execute at a price that is better than the same side Public Customer Order.[23] The Exchange's

Cross or ''QCC'' mechanism pursuant to Options 3, Section 12 or Options 8, Section 30(e).

[16] The internal PBBO (also known as the internal BBO) represents the Exchange's non-displayed order book. *See* Options 3, Section 4(b)(7).

[17] *See* proposed Options 3, Section 11(b).

[18] *See* proposed Options 3, Section 11(b)(2).

[19] *See* proposed Options 3, Section 11.

[20] The Exchange proposes to set the Facilitation Mechanism broadcast message timer to 100 milliseconds.

[21] *See* proposed Options 3, Section 11(b)(3).

[22] *See* proposed Options 3, Section 11(b)(4).

[23] *See* proposed Options 3, Section 11(b)(4)(A).

allocation methodology ensures that executions in Facilitation Auctions comply with the general prohibition on trade-throughs in Options 5, Section 2(a).

The facilitating member will be allocated up to forty percent (40%) (or such lower percentage requested by the member) of the original size of the agency order after better-priced Responses, orders and quotes, as well as Public Customer Orders and Public Customer Responses at the facilitation price, are executed in full at such price point. Thereafter, quotes, non-Public Customer Orders, and non-Public Customer Responses will execute pursuant to the priority allocations in Options 3, Section 10(a)(1)(E) and (F).[24] This allocation methodology is the same allocation methodology utilized for order book allocation at Options 3, Section 10.[25] Phlx will utilize its allocation methodology at Options 3, Section 10 whereas ISE's Facilitation Mechanism utilizes ISE's allocation methodology at ISE Options 3, Section 10. Specifically, Phlx's allocation methodology differs from ISE's allocation methodology in that Phlx will allocate to Market Makers ahead of all other non-Public Customer interest whereas ISE does not have a separate market maker allocation. This is consistent with the Exchange's standard allocation methodology in its PIXL auction. Phlx believes it is consistent with the Act to retain its allocation model in these auctions in the same way that it utilizes its allocation model in its PIXL auction in Phlx Options 3, Section 13 and ISE utilizes its allocation model in its PIM auction in ISE Options 3, Section 13. Phlx's allocation model is consistent with the Act as it maintains the priority of orders and protects Public Customer orders by allocating them prior to other interest.

The Exchange offers an auto-match functionality, which provides an enhanced price improvement opportunity for the agency order by permitting the contra-side order to further participate in the cross by auto-matching the price and size of competing interest providing price improvement from other market participants. Proposed Options 3, Section 11(b)(4)(C) notes that upon entry of an order into the Facilitation Mechanism, the facilitating member can elect to automatically match the price and size of orders, quotes and Responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, if the facilitating member auto-matches, it will be allocated the aggregate size of all competing quotes, orders, and Responses at each price point, or at each price point up to the specified limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating member shall be allocated up to forty percent (40%) (or such lower percentage requested by the member) of the original size of the agency order, but only after Public Customer Orders and Public Customer Responses at such price point. Thereafter, non-Public Customer Orders, non-Public Customer Responses and quotes will execute pursuant to the priority allocations in Options 3, Section 10(a)(1)(E) and (F),[26] which is the same allocation methodology utilized for transactions in the Exchange's order book at Options 3, Section 10. The Exchange notes that an election to automatically match better prices cannot be cancelled or altered during the exposure period.[27]

Example 4

Assume the NBBO is $10.60 bid and $10.70 offered. An agency order to sell 50 contracts at $10.65 is entered into the Facilitation Mechanism by the initiating member with a contra-side buy order that has an auto-match limit of $10.70:

If one Response is received for 10 contracts to buy at $10.70, the agency order will receive 20 contracts at $10.70 (10 against the Response and 10 against the contra-side order) and 30 contracts at $10.65 (against the contra-side order).

If there is one Response for 10 contracts to buy at $10.70 and two Responses each for 5 contracts to buy at $10.65, the agency order will receive 20 contracts at $10.70 (10 against the Response and 10 against the contra-side order), and then the balance of the 30 contracts will be allocated between the contra-side order and the two Responses at $10.65 as follows: 20 contracts would be allocated to the contra-side order (40% of the initial order); and 5 contracts would be allocated to each of the responding participants.

The proposed auto-match feature benefits the agency order because it sells additional contracts at the better price. When the initiating member selects the auto-match feature prior to the start of an auction, the available liquidity at improved prices is increased and competitive final pricing is out of the initiating member's control.

The Exchange proposes to state at proposed Options 3, Section 11(b)(4)(D) that under no circumstances will the facilitating member receive an allocation percentage, at the final price point, of more than 40% of the original size of the Facilitation Order with one or multiple competing quote(s), order(s), or Response(s), except for rounding, when competing quotes, orders, or Responses have contracts available for execution.

Finally, the Exchange notes that if a trading halt is initiated after an order is entered into the Facilitation Mechanism, such auction will be automatically terminated without execution.[28]

The Exchange proposes to state in proposed Supplementary Material .01 to Options 3, Section 11 that it would be a violation of a member's duty of best execution to its customer if it were to cancel a Facilitation Order to avoid execution of the order at a better price. A member continues to have its best execution obligations even when transacting an order in the Facilitation Mechanism and therefore must seek the best price for its customer. To this end, the Exchange makes clear that if a member were to cancel a Facilitation Order when there was a superior price available on the Exchange and subsequently re-enter the Facilitation Order at the same facilitation price after the better price was no longer available without attempting to obtain that better price for its customer, there would be a presumption that the member did so to avoid execution of its customer order in whole or in part by other brokers at the better price. Additionally, any solicited contra orders entered by members into the Facilitation Mechanism to trade against agency orders may not be for the account of a Phlx Market Maker that is assigned to the options class.

The Exchange proposes to note in Options 3, Section 7(w) that a facilitation order is a paired order entered into the Facilitation Mechanism as described in Options 3, Section 11(b).

Complex Facilitation Mechanism

The Exchange proposes a new Complex Facilitation Mechanism which will be substantively identical to ISE's Complex Facilitation Mechanism except that the Complex Facilitation Mechanism will allocate pursuant to Phlx Options 3, Section 10[29] as explained below.

The Complex Facilitation Mechanism is a process by which a member can execute a transaction wherein the member seeks to facilitate a block-size Complex Order it represents as agent, and/or a transaction wherein the member solicited interest to execute against a block-size Complex Order it

[24] *See supra* note 3.

[25] *Id.*

[26] *See supra* note 3.

[27] *See* proposed Options 3, Section 11(b)(4)(C).

[28] *See* proposed Options 3, Section 11(b)(5).

[29] *See supra* note 3.

represents as agent. Members must be willing to execute the entire size of Complex Orders entered into the Complex Facilitation Mechanism.[30] Pursuant to proposed Options 3, Section 11(c), members may use the Facilitation Mechanism in proposed sub-paragraph (b) to Options 3, Section 11 to execute block-size Complex Orders at a net price. The Exchange requires each options leg of a Complex Order entered into the Complex Facilitation Mechanism to meet the minimum contract size requirement.

Proposed Options 3, Section 11(c) describes certain criteria for transacting Complex Facilitation Orders. Pursuant to proposed Options 3, Section 11(c)(1), Complex Orders entered into the Complex Facilitation Mechanism must be priced within the parameters described below. Complex Orders that do not meet these requirements are not eligible for the Complex Facilitation Mechanism and will be rejected. Pursuant to proposed Options 3, Section 11(c)(2), Complex Options Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on the same side of the market as the agency order; and (B) equal to or better than the best net price achievable from the best Phlx bids and offers for the individual legs on the same side of the market as the agency order; provided that, if there is a Public Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Options 3, Section 14(c)(2).[31]

With respect to the Complex Facilitation Mechanism, the entry check is different for Complex Options Orders and Complex Orders that have a stock component (*i.e.,* Stock-Option Orders and Stock-Complex Orders) since Stock-Option Orders and Stock-Complex Orders entered in the Complex Facilitation Mechanism are not eligible to trade with bids and offers for the individual legs. With respect to Stock-Option Orders and Stock-Complex Orders, these orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on the same side of the market as the agency order; and (B) equal to or better than the best net price achievable from the best Phlx bids and offers for the individual legs on both sides of the market; provided that, if there is a Public Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Options 3, Section 14(c)(2).[32]

A Complex Order entered into the Complex Facilitation Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. Identical to the single-leg Facilitation Mechanism at proposed Options 3, Section 11(b)(5), if a trading halt is initiated after the order is entered into the Complex Facilitation Mechanism, such auction will be automatically terminated without execution.[33]

Identical to the single-leg Facilitation Mechanism at proposed Options 3, Section 11(b)(4)(C), upon the entry of a Complex Order into the Complex Facilitation Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and members will be given an opportunity to enter Responses with the net prices and sizes at which they want to participate in the facilitation of the Agency Complex Order.[34]

Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Complex Order to be facilitated. Responses must be entered in the increments provided in Options 3, Section 14(c)(1) [35] at the facilitation price or at a price that is at least one cent better for the agency order.[36] Responses in the Complex Facilitation Mechanism submitted by members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the Facilitation Order will be automatically executed.[37]

Identical to the single-leg Facilitation Mechanism at proposed Options 3, Section 11(b)(4)(A), unless there is sufficient size to execute the entire Facilitation Order at a better net price, Public Customer Complex Orders and Public Customer Responses to buy (sell) at the time the Facilitation Order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Non-Public Customer Complex Orders and non-Public Customer Responses to buy (sell) at the time the Facilitation Order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the Complex Order being facilitated a better price for the number of contracts associated with such higher bids (lower offers).[38]

Also, identical to the single-leg Facilitation Mechanism at proposed Options 3, Section 11(b)(4)(B), the facilitating member will be allocated up to forty percent (40%) (or such lower percentage requested by the member) of the original size of the agency order, but

[30] *See* proposed Options 3, Section 11(c).

[31] SR–Phlx–2025–17 proposed a new Options 3, Section 14(c)(2) that provides, 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). *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this rule change as they are both part of the same technology migration.

[32] *See* proposed Options 3, Section 11(c)(3). *See supra* note 31.

[33] *See* proposed Options 3, Section 11(c)(4).

[34] *See* proposed Options 3, Section 11(c)(5). The time given to members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second.

[35] SR–Phlx–2025–17 proposed a new Options 3, Section 14(c)(1) which describes minimum increments. Specifically, SR–Phlx–2025–17 proposed the following text at Options 3, Section 14(c)(1), 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. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[36] *See* proposed Options 3, Section 11(c)(6).

[37] *See* proposed Options 3, Section 11(c)(7).

[38] *See* proposed Options 3, Section 11(c)(7)(A).

only after better-priced Responses, Complex Orders, as well as Public Customer Complex Orders as well as Public Customer Complex Orders at the facilitation price, are executed in full. Thereafter, non-Public Customer Complex Orders and non-Public Customer Responses will execute pursuant to the priority allocations in Options 3, Section 10(a)(1)(E) and (F).[39] An election to automatically match better prices cannot be cancelled or altered during the exposure period.

The Complex Facilitation Mechanism will also offer the opportunity for auto-match, so that upon entry of a Complex Order into the Complex Facilitation Mechanism, the facilitating member can elect to automatically match the net price and size of Complex Orders and Responses received during the exposure period up to a specified limit price or without specifying a limit price. This election will also automatically match the net price available from the Phlx best bids and offers on the individual legs for the full size of the order; provided that with notice to members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a member elects to auto-match, the facilitating member will be allocated the aggregate size of all competing Complex Orders and Responses at each price point, or at each price point up to the specified limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating member will be allocated up to forty percent (40%) (or such lower percentage requested by the member) of the original size of the agency order, but only after Public Customer Orders and Public Customer Responses at such price point. Thereafter non-Public Customer Complex Orders and non-Public Customer Responses will execute pursuant to the priority allocations in Options 3, Section 10(a)(1)(E) and (F).[40] An election to automatically match better prices cannot be cancelled or altered during the exposure period.[41]

With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Facilitation Mechanism, the priority rules applicable to the execution of Complex Orders that are entered into the Complex Order Book in Options 3, Section 14(c)(2)[42] would apply and may prevent the execution of a Complex Order entered into the Facilitation Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Responses and, for Complex Options Orders, the Phlx best bids and offers on the individual legs, the agency order will be executed against such interest.[43]

Finally, as is the case for the Facilitation Mechanism in proposed Options 3, Section 11(b)(4)(D), under no circumstances will the facilitating member receive an allocation percentage, at the final price point, of more than 40% of the original size of the Complex Facilitation Order with one or multiple competing Complex Order(s) or Response(s), except for rounding, when competing Complex Orders or Responses have contracts available for execution.[44]

The following examples illustrate how complex orders are transacted in the Exchange's crossing mechanisms and their interaction with individual bids and offers (while the examples below are for Complex Orders entered into the Facilitation Mechanism, these orders would interact similarly with individual bids and offers when entered into the Solicited Order Mechanism and the PIXL):

Example 5

Suppose the following market in option class A:

Phlx BBO: 10 @1.00 × 10 @1.05

Suppose further the following market in option class B:

Phlx BBO: 10 @2.00 × 10 @2.05

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @3.05
Contra Side Complex Order: Sell 50 @3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Public Customer 1 Complex Order: Sell 5 @ 3.05
Non-Public Customer 1 Complex Response: Sell 50 @3.05
Non-Public Customer 2 Complex Response: Sell 50 @3.05

At the end of the exposure period, the following orders/Responses trade with the Complex agency order:

Public Customer 1 Complex Order: 5 @3.05
Contra Side Complex Order: 20 @3.05 (40% of 50)
Non-Public Customer 1 Complex Response: 13 @3.05 (Pro-Rata)
Non-Public Customer 2 Complex Response: 12 @3.05 (Pro-Rata)

Example 6

Suppose the following market in option class A:

Phlx BBO: 10 @1.00 × 10 @1.05

Suppose further the following market in option class B:

Phlx BBO: 10 @2.00 × 10 @2.05.

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @3.05
Contra Side Complex Order: Sell 50 @3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Public Customer 1 Complex Order: Sell 5 @ 3.05
Non-Public Customer 1 Complex Response: Sell 50 @3.05
Non-Public Customer 2 Complex Response: Sell 50 @3.05
Public Customer 2 Regular Order: Sell 5 Option Class A @1.02
Public Customer 3 Regular Order: Sell 5 Option Class B @2.03

At the end of the exposure period, the Complex Facilitation transaction is canceled since a trade at 3.05 with counter side orders/Responses will violate the priority rules[45] for Public Customer 2 and Public Customer 3 Regular Orders.[46]

Example 7

Suppose the following market in option class A:

Phlx BBO: 10 @1.00 × 10 @1.05

Suppose further the following market in option class B:

Phlx BBO: 10 @2.00 × 10 @2.05.

A complex order is entered into the Complex Facilitation Mechanism in the complex order book for a strategy buying 1 option class A and buying 1 option class B:

Agency Complex Order: Buy 50 @3.05
Contra Side Complex Order: Sell 50 @3.05

A broadcast message is sent announcing the start of the auction. During the exposure period, the following orders and quotes are received:

Public Customer 1 Complex Order: Sell 5 @ 3.05
Non-Public Customer 1 Complex Response: Sell 50 @3.05
Non-Public Customer 2 Complex Response: Sell 50 @3.05
Non-Public Customer 3 Regular Order: Sell 40 Option Class A @1.02
Non-Public Customer 4 Regular Order: Sell 40 Option Class 5 @2.02

[39] *See supra* note 3.

[40] *See supra* note 3.

[41] *See* proposed Options 3, Section 11(c)(7)(C).

[42] *See supra* note 31.

[43] *See* proposed Options 3, Section 11(c)(7)(D).

[44] *See* proposed Options 3, Section 11(c)(7)(E).

[45] *See* proposed Options 3, Section 11(c)(2).

[46] In Example number 6, Public Customer orders 2 and 3 do not execute against the Agency Order because the Complex Order's Responses and the Public Customer orders for the individual legs do not provide an improved next price for the Complex agency order. *See* proposed Option 3, Section 11(c)(7)(D).

Non-Public Customer 5 Complex Response: Sell 10 @3.03

At the end of the exposure period, the following orders/Responses trade with the Complex agency order:

Non-Public Customer 5 Complex Response: Sell 10 @3.03

Non-Public Customer 3 Regular Order: Sell 40 Option Class A @1.02

Non-Public Customer 4 Regular Order: Sell 40 Option Class 5 @2.02

In the above example, the Response and bids and offers on the individual legs together with the Non-Public Customer Complex Order Response to sell @3.03 can provide price improvement for the full size of the Complex Agency Order, hence the Complex agency order trades at improved price(s).[47]

The Exchange proposes to note in Options 3, Section 14(b)(16), that a Complex Facilitation Order is an order entered into the Complex Facilitation Mechanism as described in Options 3, Section 11(c).[48]

Solicited Order Mechanism

The Exchange proposes to amend Options 3, Section 11(d) and (e) to adopt a new proposed Solicited Order Mechanism or ''SOM''. Today, Phlx does not offer a SOM. The proposed SOM will be substantively identical to ISE's SOM except that the SOM will allocate pursuant to Phlx Options 3, Section 10[49] as explained below.

The SOM is a process by which a member can attempt to execute orders of 500 or more contracts it represents as agent (the ''Agency Order'') against contra orders that it solicited. Each order entered into the SOM shall be designated as all-or-none.[50] The Exchange proposes to establish a new SOM at proposed Options 3, Section 11(d).

The Exchange would require that orders be entered into the SOM at a price that is equal to or better than the NBBO and the internal PBBO on both sides of the market; provided that, if there is a Public Customer order on the BBO or internal PBBO, the order must be entered at an improved price over the Public Customer order. Orders that do not meet these requirements are not eligible for the SOM and will be rejected.[51] The proposed rule ensures that the SOM complies with the general prohibition on trade-throughs in Options 5, Section 2(a). Additionally, with respect to a Public Customer order, the requirement that the order must be entered at an improved price over the Public Customer order ensures price improvement, provided there is a Priority Customer order on the BBO or internal PBBO.

Once the two-sided order is entered into the SOM at a proposed execution price, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent and members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to participate in the execution of the Agency Order.[52] Responses must be entered at a price that is equal to or better than the better of the internal PBBO or the NBBO: (1) on the same side of the market at the start of the auction; and (2) on the opposite side of the market at the time the Response is received.[53] These entry checks would prevent potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the Agency Order but does not have enough size to satisfy the Agency Order. By utilizing the better of the internal PBBO or the NBBO at the start of the auction, the Exchange believes that better priced Responses would be permitted to trade with the Agency Order. Other Responses to that auction may be entered at a price that improves the price of Agency Order, but is inferior to such other quote/order Responses which improved upon the internal PBBO or NBBO. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal PBBO/NBBO while not fully satisfying the Agency Order, thus preventing Responses from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the Response because only interest on the same side of the Response will be eligible to trade with the auctioned order. The proposed amendments would allow Agency Orders to potentially trade at improved prices. The proposed rule is intended to prevent potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the order to be solicited.[54] At the end of the period given members to enter Responses, the Agency Order will be automatically executed in full or cancelled.[55]

If at the time of execution there is insufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed against the solicited order at the proposed execution price so long as, at the time of execution: (i) the execution price is equal to or better than the best bid or offer on Phlx, and (ii) there are no Public Customer Orders or Public Customer Responses on the Exchange that are priced equal to the proposed execution price. The execution would comply with the general prohibition on trade-throughs in Options 5, Section 2(a). If there are Public Customer Orders or Public Customer Responses on Phlx on the opposite side of the Agency Order at the proposed execution price and there is sufficient size to execute the entire size of the Agency Order, the Agency Order would be executed against the bid or offer, and the solicited order will be cancelled.[56] The aggregate size of all orders, quotes and Responses at the bid or offer will be used to determine whether the entire Agency Order can be executed. Both the solicited order and Agency Order would be cancelled if an execution would take place at a price: (1) that is inferior to the best bid or offer on the Exchange; (2) if there is a Public Customer Order or Public Customer Response on the Exchange at the proposed execution price but there is insufficient size on Phlx to execute the entire Agency Order; (3) if there is a Public Customer Order on the same side Exchange best bid (offer) at the same price as the solicitation price unless the Solicited Order can execute at a price that is better than the same side Public Customer Order.

However, if at the time of execution there is sufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will

[47] *See* proposed Options 3, Section 11(c)(7)(D).

[48] The Exchange proposed amendments to Options 3, Section 14 in SR–Phlx–2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[49] *See supra* note 3.

[50] *See* proposed Options 3, Section 11(d).

[51] *See* proposed Options 3, Section 11(d)(1).

[52] *See* proposed Options 3, Section 11(d)(2). The time given to members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second.

[53] *See* proposed Options 3, Section 11(d)(2). ISE added an identical sentence to ISE Options 3, Section 11(d)(2).

[54] *See supra* Example 2, which applies to orders entered into the Solicited Order Mechanism as well.

[55] *See* proposed Options 3, Section 11(d)(3). The time given to members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second.

[56] *See* proposed Options 3, Section 11(d)(3)(A).

be executed at the improved price(s), provided the execution price is equal to or better than the best bid or offer on Phlx, and the solicited order will be cancelled. The aggregate size of all orders, quotes and Responses at each price will be used to determine whether the entire agency order can be executed at an improved price (or prices).[57]

The Exchange notes that when executing the Agency Order against the bid or offer in accordance with subparagraph (A) of Options 3, Section 11(d)(3), or at an improved price in accordance with subparagraph (B) of Options 3, Section 11(d)(3), Public Customer Orders and Public Customer Responses will be executed first. Thereafter, non-Public Customer Orders, non-Public Customer Responses, and quotes will execute pursuant to the priority allocations in Options 3, Section 10(a)(1)(E) and (F),[58] as is the case with transactions on the order book at Options 3, Section 10.[59] This allocation methodology is the same allocation methodology utilized for order book allocation at Options 3, Section 10.[60] Phlx will utilize its allocation methodology whereas ISE's SOM utilizes ISE's allocation methodology in ISE Options 3, Section 10. Phlx's allocation methodology differs from ISE's allocation methodology in that Phlx will allocate to Market Makers ahead of all other non-Public Customer interest whereas ISE does not have an additional market maker allocation. This is consistent with the Exchange's standard allocation methodology in its PIXL auction. Phlx believes it is consistent with the Act to retain its allocation model in these auctions in the same way that it utilizes its allocation model in its PIXL auction in Phlx Options 3, Section 13 and ISE utilizes its allocation model in its PIM auction in ISE Options 3, Section 13. Phlx's allocation model is consistent with the Act as it maintains the priority of orders and protects Public Customer orders by allocating them prior to other interest.

Identical to all other auctions on Phlx, if a trading halt is initiated after an order is entered into the SOM, such auction will be automatically terminated without execution.[61] Prior to entering Agency Orders into the SOM on behalf of a customer, members must deliver to the customer a written notification informing the customer that its order may be executed using the Phlx's SOM. Such written notification must disclose the terms and conditions contained in this rule and must be in a form approved by the Exchange.[62]

The Exchange proposes adding text at proposed Supplementary Material .03 to Options 3, Section 11 to make clear that the SOM provides a facility for members that locate liquidity for their customer orders, and that members may not use the SOM to circumvent Exchange rules limiting principal transactions as provided for in Options 3, Section 22(b).[63] This would include a member entering contra-orders that are solicited from affiliated broker-dealers or broker-dealers with which the member has an arrangement that allows the member to realize similar economic benefits from the solicited transaction as it would achieve by executing the order in whole or in part as principal. Finally, any solicited contra orders entered by members to trade against Agency Orders may not be for the account of a Phlx Market Maker that is assigned to the options class.

The Exchange proposes to note in Options 3, Section 7(x) that a SOM order is a paired order entered into the SOM as described in Options 3, Section 11(d).[64]

Complex Solicited Order Mechanism

The Exchange proposes to offer a Complex SOM that is substantially identical to ISE's Complex SOM except that Phlx will allocate the Complex SOM pursuant to Options 3, Section 10[65] as explained below.

The Complex SOM is a process by which a member can attempt to execute Complex Orders it represents as agent (the ''Agency Complex Order'') against contra orders that it solicited according to subparagraph (d), the SOM, of Options 3, Section 11. Each Complex Order entered into the SOM shall be designated as all-or-none, and each options leg must meet the minimum contract size requirement contained in subparagraph (d) of the SOM.[66]

Proposed Options 3, Section 11(e)(1) describes certain criteria for transacting Complex Solicited Orders. Proposed Options 3, Section 11(e)(1) provides that, Complex Orders must be entered into the Complex SOM at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on both sides of the market; and (B) equal to or better than the best net price achievable from the best Phlx bids and offers for the individual legs on both sides of the market; provided that, if there is a Public Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Options 3, Section 14(c)(2).[67] Complex Orders that do not meet these requirements are not eligible for the Complex SOM and will be rejected.[68]

Proposed Options 3, Section 11(e)(2) provides that a Complex Order entered into the Complex SOM will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex SOM, such auction will be automatically terminated without execution. This is identical to the proposed treatment of halts in a single-leg SOM at Options 3, Section 11(d)(4).

Identical to a single-leg SOM at proposed Options 3, Section 11(d)(2), upon entry of both orders into the Complex SOM at a proposed execution net price, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and members will be given an opportunity to enter Responses with the net prices and sizes at which they would be willing to participate in the execution of the Agency Complex Order.[69] The time given to members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second, which is identical to the proposed single-leg SOM. Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order identical to the proposed single-leg SOM. Responses must be entered in the

[57] *See* proposed Options 3, Section 11(d)(3)(B).

[58] *See supra* note 3.

[59] *See* proposed Options 3, Section 11(d)(3)(C).

[60] *Id.*

[61] *See* proposed Options 3, Section 11(d)(4).

[62] *See* proposed Options 3, Section 11(d)(5).

[63] Currently, Options 3, Section 22(b) provides that member organizations may not execute as principal against orders on the Limit Order book they represent as agent unless: (i) agency orders are first exposed on the Limit Order book for at least 1 second; (ii) the member has been bidding or offering on the Exchange for at least 1 second prior to receiving an agency order that is executable against such order; (iii) the orders are entered into Price Improvement XL or ''PIXL'' pursuant to Options 3, Section 13; (iv) the orders are entered into the Complex Order Live Auction or ''COLA'' pursuant to Options 3, Section 14(e); or (v) the orders are entered into the Qualified Contingent Cross or ''QCC'' mechanism pursuant to Options 3, Section 12 or Options 8, Section 30(e).

[64] Options 3, Section 7 was revised by 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.

[65] *See supra* note 3.

[66] *See* proposed Options 3, Section 11(e).

[67] *See supra* note 31.

[68] *See* proposed Options 3, Section 11(e)(1).

[69] *See* proposed Options 3, Section 11(d)(3).

increments provided in Options 3, Section 14(c)(1) [70] at the proposed execution net price or at a price that is at least one cent better for the Agency Order.[71]

Responses submitted by members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the Agency Complex Order will be automatically executed in full, as explained further below, or cancelled.[72]

First, if at the time of execution there is insufficient size to execute the entire Agency Complex Order at an improved net price(s) pursuant to paragraph (e)(4)(C) as discussed below, the Agency Complex Order will be executed against the solicited Complex Order at the proposed execution net price so long as, at the time of execution: (i) the execution net price is equal to or better than the best net price achievable from the best Phlx bids and offers for the individual legs, (ii) the Complex Order can be executed in accordance with Options 3, Section 14(c)(2) [73] with respect to the individual legs, (iii) the execution net price is equal to or better than the best bid or offer on the Complex Order Book, and (iv) there are no Public Customer Complex Orders or Responses that are priced equal to or better than the proposed execution price.[74]

Second, if there are Public Customer Complex Orders or Responses on the opposite side of the Agency Complex Order at the proposed execution net price and there is sufficient size to execute the entire size of the Agency Complex Order, the Agency Complex Order will be executed against such interest, and the solicited Complex Order will be cancelled, provided that: (i) the execution net price is equal to or better than the best net price achievable from the best Phlx bids and offers for the individual legs, and (ii) the Complex Order can be executed in accordance with Options 3, Section 14(c)(2) [75] with respect to the individual legs. The aggregate size of all Complex Orders, Responses and, for Complex Options Orders, the aggregate size available from the best bids and offers for the individual legs, will be used to determine whether the entire Agency Complex Order can be executed as is the case for the proposed SOM at Options 3, Section 11(d)(3)(A).[76]

Third, if at the time of execution there is sufficient size to execute the entire Agency Complex Order at an improved net price(s), the Agency Complex Order will be executed at the improved net price(s), and the solicited Complex Order will be cancelled, provided that: (i) the execution net price is equal to or better than the best net price achievable from the best Phlx bids and offers for the individual legs, and (ii) the Complex Order can be executed in accordance with Options 3, Section 14(c)(2) [77] with respect to the individual legs. The aggregate size of all Complex Orders, Responses, and the aggregate size available from the best bids and offers for the individual legs for a Complex Options Order, will be used to determine whether the entire Agency Complex Order can be executed as is the case for the proposed SOM at Options 3, Section 11(d)(3)(A).[78]

Fourth, as is the case for the SOM at Options 3, Section 11(d)(3)(C) when executing the Agency Complex Order against other interest in accordance with Options 3, Section 14(d)(2)(ii), Public Customer Complex Orders and Public Customer Responses will be executed first. Thereafter, non-Public Customer Complex Orders, and non-Public Customer Responses will execute pursuant to the priority allocations in Options 3, Section 10(a)(1)(E) and (F).[79] Finally, for Complex Options Orders, bids and offers for the individual legs will be executed pursuant to Options 3, Section 10 and the Supplementary Material thereto.[80] Non-Public Customer Complex Orders and non-Public Customer Responses participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the non-Public Customer Complex Order or non-Public Customer Response.

Identical to proposed rule text in the single-leg SOM at Options 3, Section 11(d)(5), prior to entering Agency Orders into the Complex SOM on behalf of a customer, members must deliver to the customer a written notification informing the customer that its order may be executed using Phlx's SOM. Such written notification must disclose the terms and conditions contained in Section 11(d)(5) and must be in a form approved by the Exchange.[81]

The Exchange proposes to note in Options 3, Section 14(b)(17) that a Complex SOM Order is an order entered into the Complex SOM as described in Options 3, Section 11(e).

Split Prices

The Exchange proposes to add rule text at Supplementary Material .04 to Options 3, Section 11 related to Split Prices, which is identical to ISE Supplementary Material .04 to Options 3, Section 11.

The proposed rule text for Split Price would permit Orders and Responses to be entered into the Facilitation and Solicited Order Mechanisms and receive executions at the mid-price between the standard minimum trading increments for the options series (''Split Prices''). This means that orders and Responses for options with a minimum increment of 5 cents may be entered into the Facilitation and Solicited Order Mechanisms and receive executions in 2.5 cent increments (*e.g.,* $1.025, $1.05, $1.075, etc.), and that orders and Responses for options with a minimum increment of 10 cents may be entered into the Facilitation and Solicited Order Mechanism and receive executions at 5 cent increments (*e.g.,* $4.05, $4.10, $4.15). The Exchange notes that Orders and Responses in the market that receive the benefit of the facilitation price under subparagraph (b)(3)(i) of Options 3, Section 11 may also receive executions at Split Prices. Orders executed at a Split Price would be reported to the Options Price Reporting Authority (''OPRA'') and cleared by The Options Clearing Corporation (''OCC'') at the Split Price. The Exchange believes that the ability to utilize split price would provide members with greater flexibility in the pricing of their auction trades and allow a greater opportunity for price improvement for large-size orders. Additionally, the proposed rule change would provide for mechanisms that are competitive with floor-based exchange models, such as Phlx's trading floor, where Split Prices are permitted.[82]

[70] *See supra* note 35.

[71] *See* proposed Options 3, Section 11(d)(3).

[72] *See* proposed Options 3, Section 11(d)(4).

[73] *See supra* note 31.

[74] *See* proposed Options 3, Section 11(d)(4)(A).

[75] *See supra* note 31.

[76] *See* proposed Options 3, Section 11(d)(4)(B).

[77] *Id.*

[78] *See* proposed Options 3, Section 11(d)(4)(C).

[79] *See supra* note 3.

[80] *See* proposed Options 3, Section 11(d)(4)(D).

[81] *See* proposed Options 3, Section 11(d)(5).

[82] *See* Phlx Options 8, Section 25(m), which states that Floor brokers are able to achieve split price priority in accordance with Options 8, Section 25(a)(2), provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Phlx member broker-dealer (''Phlx member BD'') must ensure that the Phlx member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2–2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.

ISO

The Exchange proposes to add a Facilitation ISO order at Options 3, Section 11(b) that is identical to ISE's Facilitation ISO order at ISE Options 3, Section 11(b).

The Exchange proposes to permit a Facilitation ISO order to be entered into the Facilitation Mechanism for single-leg orders, identical to ISE Options 3, Section 11(b), at Supplementary Material .06 to Options 3, Section 11.[83] An ISO is defined in Options 3, Section 7(b)(4) as a limit order that meets the requirements of Options 5, Section 1(h) and trades at allowable prices on the Exchange without regard to the ABBO. Simultaneously with the routing of the ISO to the Exchange, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO.[84] A member may submit an ISO to the Exchange only if it has simultaneously routed one or more additional ISOs to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the ISO.

The Exchange proposes to accept a Facilitation ISO into the Facilitation Mechanism provided the order adheres to the current order entry requirements for the Facilitation Mechanism as set forth in proposed Options 3, Section 11(b)(1),[85] but without regard to the ABBO (identical to a regular ISO in Options 3, Section 7(b)(4)). Therefore, Facilitation ISOs must be entered at a price that is equal to or better than the Exchange best bid or offer on the same side of the market as the agency order unless there is a Public Customer order on the same side Exchange best bid or offer, in which case the Facilitation ISO must be entered at an improved price. The Exchange does not check the Exchange best bid or offer on the opposite side of the Facilitation ISO because the underlying Facilitation Mechanism does not check the opposite side Exchange best bid or offer. As discussed above, the Facilitation Mechanism only requires that the opposite side of the agency order be equal to or better than the ABBO.[86] The Facilitation Mechanism does not check the opposite side Exchange best bid or offer because any interest that is available on the opposite side of the market would allocate against the Facilitation agency order and provide price improvement. As an example of the current underlying Facilitation Mechanism:

Assume the following market:

Exchange BBO: 1 × 2 (also NBBO)

CBOE: 0.75. × 2.25 (next best exchange quote)

Agency order is entered to buy 50 contracts @2.05

No Responses are received.

The agency order executes with resting 50 lot quote @2. In this instance, the agency order is able to be crossed with the contra side Exchange BBO because in execution, the resting 50 lot quote @2 is able to provide price improvement to the agency order.

Given that the Facilitation ISO is accepted so long as it adheres to the order entry requirements of the underlying Facilitation Mechanism, but without regard to the ABBO, the Exchange believes that it is appropriate and logical to align the order entry checks of the Facilitation ISO in the manner discussed above.

The Exchange processes the Facilitation ISO in the same manner that it processes any other Facilitation Orders, except that it will initiate a Facilitation Mechanism without protecting prices away. Instead, the member entering the Facilitation ISO will bear the responsibility to clear all better priced interest away simultaneously with submitting the Facilitation ISO to the Exchange. The Exchange believes that offering this order type is beneficial for members as it provides them with an efficient method to initiate a Facilitation Mechanism while preventing trade-throughs.

The following example illustrates how Facilitation ISO operates:

Example 8

Assume:

ABBO: 1 × 1.20

Exchange BBO: 0.90 × 1.30

A member enters Facilitation ISO with Agency side to buy 50 @1.25 and simultaneously routes multiple ISOs to execute against the full displayed size of any Protected Bids priced better than the starting Facilitation Mechanism price.

Facilitation ISO auction period concludes with no Responses arriving.

Facilitation ISO executes with contra side 50 @1.25 because the away market Best Offer of 1.20 has been cleared by the ISOs clearing the way for the Agency side to trade with the counter-side order at 1.25.

The Exchange proposes adding a Solicitation ISO order at Options 3, Section 11(d) that is identical to ISE's Solicitation ISO order at ISE Options 3, Section 11(d).

The Exchange proposes to amend Supplementary Material .07 to Options 3, Section 11 to permit a Solicitation ISO Order (''Solicitation ISO'') to be entered into the SOM for single-leg orders, identical to ISE Options 3, Section 11(d). A Solicitation ISO is the transmission of two orders for crossing pursuant to proposed paragraph (d) of Options 3, Section 11 without regard for better priced Protected Bids or Protected Offers (as defined in Options 5, Section 1) because the member transmitting the Solicitation ISO to the Exchange has, simultaneously with the transmission of the Solicitation ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting Solicited auction price and has swept all interest in the Exchange's book priced better than the proposed auction starting price. Any execution(s) resulting from such sweeps shall accrue to the Agency Order.

The Exchange proposes to accept a Solicitation ISO provided the order adheres to the current order entry requirements for the SOM as set forth in Options 3, Section 11(d)(1),[87] but

[83] A Facilitation ISO order (''Facilitation ISO'') is the transmission of two orders for crossing pursuant to paragraph (b) above without regard for better priced Protected Bids or Protected Offers (as defined in Options 5, Section 1) because the member transmitting the Facilitation ISO to the Exchange has, simultaneously with the transmission of the Facilitation ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting Facilitation auction price. Any execution(s) resulting from such sweeps shall accrue to the agency order.

[84] ''Protected Bid'' or ''Protected Offer'' means a Bid or Offer in an options series, respectively, that: (a) is disseminated pursuant to the Options Order Protection and Locked/Crossed Market Plan; and (b) is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange. *See* Options 5, Section 1(o).

[85] Proposed Options 3, Section 11(b)(1) provides that orders must be entered into the Facilitation Mechanism at a price that is (A) equal to or better than the NBBO and the internal BBO on the same side of the market as the agency order unless there is a Public Customer order on the BBO or internal BBO on the same side of the market as the agency order, in which case the order must be entered at an improved price over the Public Customer order; and (B) equal to or better than the ABBO on the opposite side. Orders that do not meet these requirements are not eligible for the Facilitation Mechanism and will be rejected.

[86] *Id.*

[87] Proposed Options 3, Section 11(d)(1) states, orders must be entered into the Solicited Order Mechanism at a price that is equal to or better than the NBBO and the internal BBO on both sides of the market; provided that, if there is a Public Customer order on the BBO or internal BBO, the order must be entered at an improved price over the Public Customer order. Orders that do not meet these requirements are not eligible for the Solicited Order Mechanism and will be rejected.

without regard to the ABBO (similar to a regular ISO in Options 3, Section 7(b)(4)). Therefore, Solicitation ISOs must be entered at a price that is equal to or better than the Exchange best bid or offer on both sides of the market; provided that, if there is a Public Customer order on the Exchange best bid or offer, the Solicitation ISO must be entered at an improved price.

The Exchange would process the Solicitation ISO in the same manner that it processes other orders entered in the SOM, except that it would initiate a Solicited Order auction without protecting away prices. Instead, the member entering the Solicitation ISO will bear the responsibility to clear all better priced interest away simultaneously with submitting the Solicitation ISO to the Exchange. The Exchange believes that offering this order type is beneficial for members as it provides them with an efficient method to initiate an auction in the SOM while preventing trade-throughs. The following example illustrates how the Solicitation ISO operates:

Example 9

Assume:

ABBO: 1 × 1.20
Exchange BBO: 0.90 × 1.30

A member enters Solicitation ISO with Agency side to buy 500 @1.25 and simultaneously routes multiple ISOs to execute against the full displayed size of any Protected Bids priced better than the starting Solicitation auction price.

Solicitation ISO auction period concludes with no Responses arriving.

Solicitation ISO executes with contra side 500 @1.25.

Note that in the case a Solicitation ISO was entered with the Agency side to buy 500 @ 1.35, it would be rejected because it was not at or better than the NBBO on both sides (which is inclusive of an Exchange book check). While the 1.20 away Best Offer was cleared by the simultaneously routed ISOs, the Exchange Best Offer of 1.30 would now be viewed as the National Best Offer for purposes of the Solicitation ISO.

Further note that a Facilitation ISO entered with the agency side to buy 50 @1.35 can start in the same example above because it does not have a contra-side (from the agency order perspective) Exchange book check to begin. The Facilitation ISO would go on to allocate against the 1.30 offer on the Exchange book upon the conclusion of the auction.

The Exchange proposes to amend Options 3, Section 7(b)(2) to note that ISOs may be entered into the Facilitation Mechanism or SOM pursuant to Supplementary Material .06 and .07 to Options 3, Section 11. ISE Options 3, Section 7(b)(2) has identical rule text.

Complex Facilitation and Complex SOM Orders With Stock/ETF Components

The Exchange proposes to add rule text at Supplementary Material .08 to Options 3, Section 11 related to Complex Facilitation and Complex SOM Orders with stock/ETF components which is identical to ISE Supplementary Material .08 to Options 3, Section 11. The Exchange proposes to state,

(a) members may only submit Complex Facilitation Orders, Complex SOM Orders, and/or Responses with a stock/ETF component if such orders/Responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. members submitting such 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 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 orders containing a stock/ETF component.

(b) Where one component of a Complex Facilitation Order, Complex SOM Order, and/or Response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Facilitation Order or Complex SOM Order to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market, as determined by the Exchange pursuant to Options 3, Section 16(a). If the stock price is not within these parameters, the Complex Facilitation Order, Complex SOM Order, and/or Response is not executable and would be cancelled.

(c) 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 Facilitation Order, Complex SOM Order and/or Response 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 Facilitation Order, Complex SOM Order and/or Response 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. When a Response or an unrelated limit complex order on the complex order book includes a short sale order in the underlying covered security, NES will execute such order at (1) its stated limit price if the facilitating member's contra order or the contra-side solicited Complex Order does not include a short sale order in the underlying security; or (2) its stated limit price or better if the facilitating member' contra order or the solicited contra-side Complex Order includes a short sale order in the underlying covered security. If NES cannot execute the underlying covered security component of a Complex Facilitation Order, Complex SOM Order and/or Response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Facilitation Order, Complex SOM Order and/or Response to the entering member. For purposes of this paragraph, the term ''covered security'' shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

Today, on Phlx NES performs the same functions with respect to execution, reporting and submission of the underlying stock or ETF component of a Complex Order that it would perform with these amendments for the underlying stock or ETF component of a Complex Order that is entered into any of the proposed new auction mechanisms. The proposed language describing NES is not new language, rather the existing NES language in Options 3, Section 13 regarding PIXL and Options 3, Section 14 regarding Complex Orders is simply being extended to other auction mechanisms to make clear that NES would likewise execute, report and submit of the underlying stock or ETF component of a Complex Order for those auctions. By way of background, NES is a registered broker-dealer and member of various exchanges and the Financial Industry Regulatory Authority (''FINRA''). Today, NES is responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order for Phlx members transacting Complex Orders with a stock or ETF component.[88] Because these trades with a stock component occur off-exchange, the principal regulator is FINRA;[89] the execution and reporting of the stock/ETF piece occur otherwise than on Phlx

[88] In particular, NES has in place policies and procedures designed to prevent the misuse of material non-public information related to stock-tied executions. Of note, NES only receives information about the stock or ETF portion of the order from the Exchange. Today, NES is responsible for the proper execution, trade reporting, and submission to clearing of the underlying stock or ETF component of a Complex Order on Phlx.

[89] NES is responsible for compliance with FINRA rules generally and is subject to examination by FINRA. Specifically, NES is subject to FINRA Rule 3110, which generally requires that the policies and procedures and supervisory systems of a broker-dealer be reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA rules, including those relating to the misuse of material non-public information. To this end, today, NES has in place policies related to confidentiality and the potential for informational advantages relating to its affiliates, intended to protect against the misuse of material nonpublic information. Phlx establishes and maintains procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and NES.

or any other exchange. The stock execution is handled by NES pursuant to applicable rules regarding equity trading,[90] including the rules governing trade reporting, trade-throughs and short sales. Specifically, NES reports the trades to the Trade Reporting Facility.[91] Firms that are members of FINRA are required to have a Uniform Service Bureau/Executing Broker Agreement (''AGU'') with NES in order to trade Complex Orders containing a stock/ETF component. Firms that are not members of FINRA are required to have a Qualified Special Representative (''QSR'') arrangement with NES in order to trade Complex Orders containing a stock/ETF component. This requirement is codified in proposed Supplementary Material .08 to Options 3, Section 11. Accordingly, this process is available to all Phlx members and the stock/ETF component of a Complex Order, once executed, is properly processed for trade reporting purposes. Phlx has identical requirements within its current Options 3, Sections 13(b)(10) and current 14(a)(i) with respect to PIXL and Complex Orders.[92]

With respect to trade-throughs, the Exchange believes that the stock/ETF component of a Complex Order is eligible for the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. A Qualified Contingent Trade is a transaction consisting of two or more component orders, executed as agent or principal, that satisfy the six elements in the Commission's order exempting Qualified Contingent Trades (''QCTs'') from the requirements of Rule 611(a),[93] which requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs.[94] The Exchange believes that the stock/ETF portion of a Complex Facilitation or Solicited Order under this proposal complies with all six requirements. Moreover, as explained below, Phlx's System would validate compliance with each requirement such that any matched order received by NES under this proposal has been checked for compliance with the exemption, as follows:

(1) At least one component order is in an NMS stock: The stock/ETF component must be an NMS stock, which is validated by the System;

(2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent: A Complex Order, by definition consists of a single net/debit price and this price contingency applies to all the components of the order, such that the stock price computed and sent to NES allows the stock/ETF order to be executed at the proper net debit/credit price based on the execution price of each of the option legs, which is determined by the Phlx System;

(3) the execution of one component is contingent upon the execution of all other components at or near the same time: Once a Complex Order is accepted and validated by the System, the entire package is processed as a single transaction and each of the option leg and stock/ETF components are simultaneously processed;

(4) the specific relationship between the component orders (*e.g.,* the spread between the prices of the component orders) is determined at the time the contingent order is placed: Complex Orders, upon entry, must have a size for each component and a net debit/credit, which the System validates and processes to determine the ratio between the components; an order is rejected if the net debit/credit price and size are not provided on the order;

(5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled: under this proposal, the stock/ETF component must be the underlying security respecting the option legs, which is validated by the System; and

(6) the transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade: Under this proposal, the ratio between the options and stock/ETF must be a conforming ratio (8 contracts per 100 shares), which the System validates, and which under reasonable risk valuation methodologies, means that the stock/ETF position is fully hedged.[95]

Furthermore, proposed Supplementary Material .08 to Options 3, Section 11, provides that members may only submit Complex Facilitation or Solicitation Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption. Members submitting such Complex Facilitation or Solicitation Orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Thus, the Exchange believes that Complex Facilitation or Solicitation Orders consisting of a stock/ETF component will comply with the exemption and that Phlx's System will validate such compliance to assist NES in carrying out its responsibilities as agent for these orders. The Exchange proposes to add this rule text at Supplementary Material .08 to Options 3, Section 11 to reflect that this requirement to comply with the Qualified Contingent Trade Exemption would be applied to Complex Facilitation or Solicitation Orders the same way it applies today with respect to all other Complex Orders executed on Phlx.

With respect to short sale regulation, the proposed handling of the stock/ETF component of a Complex Facilitation or Solicited Order under this proposal should not raise any issues of compliance with the currently operative provisions of Regulation SHO.[96] When a Complex Facilitation or Solicited Order

[90] Once the orders are communicated to the broker-dealer for execution, the broker-dealer has complete responsibility for determining whether the orders may be executed in accordance with all of the rules applicable to execution of equity orders.

[91] Specifically, the trades will be reported to the FINRA/Nasdaq TRF which is a facility of FINRA that is operated by Nasdaq, Inc. and utilizes Automated Confirmation Transaction (''ACT'') Service technology.

[92] The Exchange amended Complex Orders in SR-Phlx-2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[93] 17 CFR 242.611(a).

[94] *See* Securities Exchange Act Release Nos. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (''QCT Exemptive Order''). *See also* Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (''Initial QCT Exemption Order''). The QCT Exemption applies to trade-throughs caused by the execution of an order involving one or more NMS stocks that are components of a ''qualified contingent trade.'' As described more fully in the QCT Exemptive Order, a qualified contingent trade is a transaction consisting of two or more component orders, executed as principal or agent, where: (1) At least one component order is an NMS stock; (2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (*e.g.,* the spread between the prices of the component orders) is determined at the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and (6) the Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

[95] A trading center may demonstrate that an Exempted NMS Stock Transaction is fully hedged under the circumstances based on the use of reasonable risk-valuation methodologies. *See* Initial QCT Exemption Order at footnote 9. The Initial QCT Exemption Order stated that, ''To effectively execute a contingent trade, its component orders must be executed in full or in ratio at its predetermined spread or ratio.'' *See* Initial QCT Exemption Order, 71 FR at 52830. The Initial QCT Order further stated that, ''In ratio'' clarifies that component orders of a contingent trade do not necessarily have to be executed in full, but any partial executions must be in a predetermined ratio.'' *See id* at footnote 11.

[96] 17 CFR 242.200 *et seq.*

has a stock/ETF component, members must indicate, pursuant to Regulation SHO, whether that order involves a long or short sale. The System will accept Complex Facilitation or Solicitation Orders with a stock/ETF component marked to reflect either a long or short position; specifically, orders not marked as buy, sell or sell short will be rejected by Phlx's System.[97] The System will electronically deliver the stock/ETF component to NES for execution. Simultaneous with the options execution on Phlx's System, NES will execute and report the stock/ETF component, which will contain the long or short indication as it was delivered by the member to Phlx's System. Accordingly, NES, as a trading center under Rule 201, will be compliant with the requirements of Regulation SHO. Of course, broker-dealers, including both NES and the members submitting orders to Phlx with a stock/ETF component, must comply with Regulation SHO. NES' compliance team currently updates, reviews and monitors NES' policies and procedures including those pertaining to Regulation SHO on an annual basis and it will continue to review and monitors NES' policies and procedures annually.

Further, proposed Supplementary Material .08(c) to Options 3, Section 11 provides that when the short sale price test in Rule 201 of Regulation SHO[98] is triggered for a covered security, NES will not execute a short sale order in the underlying covered security component[99] 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 Facilitation or Solicited 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 Facilitation or Solicited Order in accordance with Rule 201 of Regulation SHO, the Exchange will hold the Complex Facilitation or Solicited Order on the Complex Order Book, if consistent with member instructions (members may always elect to cancel the order).[100] The order may execute at a price that is not equal to or below the current national best bid.[101] Phlx will not cancel back the Complex Order to the entering member unless the member requests that the order be cancelled. However, NES will execute a short sale order in the underlying covered security component of a Complex Facilitation Order, Complex Solicited Order and/or Response 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.[102] Further, if NES cannot execute the underlying covered security component of a Complex Facilitation Order, Complex Solicited Order and/or Response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Facilitation Order, Complex SOM Order and/or Response to the entering member.

When a member submits a Complex Facilitation or Complex Solicitation auction Response that includes a short sale order, their short sale order will execute at its stated limit price, but not at a better price if the facilitating member's contra-order or the solicited contra-side Complex Order does not include a short sale order. However, their short sale order will execute at its stated limit price or better if the facilitating member's contra-order or the solicited contra-side Complex Order includes a short sale order. Thus, whether a short sale order included in a Facilitation or Solicitation auction Response receives its stated limit price, or potentially receives a better price than its limit price, depends on whether the contra-side order submitted to the auction with an agency order also included a short sale order. Although the availability of the potential for price improvement for the responder's short sale order will vary, depending on whether the contra-order also included a short sale order, the Exchange notes that for the reasons described below the alternative would be to exclude auction orders that include a short sale order from the Complex Facilitation or Complex Solicitation altogether, which would decrease competition in the auction and potentially reduce opportunities for the agency order to receive price improvement in the auctions. Below are some examples of Complex Facilitation Auction Responses executing within a Complex Facilitation Auction.[103]

Example 10

Complex Facilitation Auction utilizing stated limit price
Phlx BBO for option leg is 0.05 × 0.10
Underlying equity NBBO is 1.05 × 1.10
Reg SHO short sale price test is triggered in the underlying
Stock-Option Strategy is created to buy 1 put, buy 100 shares (cBBO for this strategy is 1.10 × 1.20)
Complex Facilitation to buy strategy, 100 @ 1.13 (buy stock @1.08 and options @ 0.05)[104]; Counter-Side Order does not include a short sale order
Response 1 is a Public Customer Order to sell, sell short stock leg, 100 @1.11 (sell stock @1.06 and options @0.05)
Response 2 to sell, sell short stock leg, 100 @1.12 (sell stock @1.07 and options @0.05)
Complex Facilitation auction timer concludes
Response 1 trades with Complex Facilitation agency order, option @0.05 and stock @1.06 for net price of 1.11. Response 1 may not trade the underlying equity at 1.05 because it cannot execute a short sale order at a price that is equal to the NBB of the underlying equity.

Example 11

Complex Facilitation Auction utilizing stated limit price
Phlx BBO for option leg is 0.05 × 0.10
Underlying equity NBBO is 1.05 × 1.10
Reg SHO short sale price test is triggered in the underlying
Stock-Option Strategy is created to buy 1 put, buy 100 shares (cBBO for this strategy is 1.10 × 1.20)
Complex Facilitation to buy strategy, 100 @ 1.13 (buy stock @1.08 and options @0.05); Counter-Side Order does not include a short sale order
Response 1 is a Public Customer Order to sell, sell short stock leg, 100 @1.10 (sell stock @1.05 and options @0.05)
Response 2 to sell, sell short stock leg, 100 @1.12 (sell stock @1.06 and options @0.06)
Complex Facilitation auction timer concludes

Response 2 trades with Complex Facilitation agency order, option @0.06 and stock @1.06 for net price of 1.12. Since the Counter-Side Order does not include a short

[97] The Exchange also accepts short sell exempt orders as described herein.

[98] *See* Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010) (''Rule 201 Adopting Release'').

[99] For purposes of this paragraph, the term ''covered security'' shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

[100] *See* proposed Options 3, Section 16(e). In contrast, Complex Orders in an auction mechanism that cannot be executed in accordance with Regulation SHO will be cancelled back and will not rest on the Complex Order Book as provided in Supplementary Material .08 to Options 3, Section 11 and Supplementary Material .09 to Options 3, Section 13.

[101] Options 3, Section 16(e) was amended by SR–Phlx–2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[102] *See* ISE Supplementary Material .08(c) to Options 3, Section 11 and ISE Supplementary Material .09(c) to Options 3, Section 13.

[103] The same examples apply to a Complex Solicitation Order Mechanism.

[104] The Exchange notes that different combinations of stock and options prices could determine the strategy prices in this Example 1 as well as Examples 2 and 3. The Exchange is assuming the noted prices for the examples, however the Exchange notes that multiple price points could achieve the net prices in these examples. In this particular case in Example 1, the agency order could buy stock @1.07 and buy options @0.06 in lieu of the prices noted.

sale order, Response 1 is considered for execution at its stated limit price of 1.10; since it cannot trade at 1.10 (specifically it cannot sell the stock @1.05) due to Reg SHO, it does not trade with the Complex Facilitation agency order.

Example 12

Complex Facilitation Auction where Counter-Side is also short selling
Phlx BBO for option leg is 0.05 × 0.10
Underlying equity NBBO is 1.05 × 1.20
Counter-Side Order includes a short sale order
Reg SHO short sale price test is triggered in the underlying
Stock-Option Strategy is created to buy 1 put, buy 100 shares (cBBO for this strategy is 1.10 × 1.30)

Complex Facilitation to Buy strategy, 100 @1.13, Counter-Side Order is a Market Order that is willing to auto-match at any price point within Reg SHO price restriction bound and has 'sell short' stock leg instructions and therefore cannot trade the stock component at any price less than or equal to the underlying best bid of 1.05. In this example, if the Counter-Side Order did not have a ''sell short'' instruction it would not be required to trade at a price that is better than the NBB for security (1.05) and could execute at a price equal to or less than the underlying best bid of 1.05. The price of 1.10 is the cBB (net of option and underlying NBB).

Response 1 is to sell, sell short stock leg, 100 @1.10 (selling stock at 1.05 and options at 0.05; note it cannot trade at 1.10 (specifically it cannot sell stock @1.05) due to Reg SHO)
Response 2 to sell, sell short stock leg, 100 @1.12 (selling stock at 1.06 and options at 0.06)
Complex Facilitation auction timer concludes

The Complex Facilitation agency order first executes 40 contracts with the Counter-Side Market Order, the option leg at 0.05 and stock leg at 1.06 for a net price of 1.11. The remaining 60 contracts from the Complex agency order then execute with Response 1 at the same price. In this example, both the Complex Counter-Side Order and the Response are marked short sale, which permits the Response to trade at a price that is better than its stated limit price.

In this example, Response 1 traded at its next available price in lieu of its stated limit price because both the Counter-Side Order and the Response included a short sale order in the underlying component security. In contrast, if the Counter-Side Order did not include a short sale order then the Counter-Side Order and Response 2 would trade with the Complex Facilitation agency order for a net price of 1.12 (option @0.06 and stock @ 1.06).

In such case where a Response or an unrelated limit complex order on the complex order book includes a short sale order in the underlying covered security, NES would execute the order at its stated limit price if the facilitating member's contra order or contra-side solicited Complex Order does not include a short sale order in the underlying covered security because the Exchange desires to foster competition by including Responses that have a short sale order in the underlying covered security. In this scenario, the Exchange would consider all prices submitted by responders at which the auction may execute because the member's contra order or contra-side solicited Complex Order does not need to comply with the short sale price test in Rule 201 of Regulation SHO because the order is not short. By using the order's stated limit price in this case, the Exchange would allow the responder with a short sale order to participate in the relevant auction and allocate the best price possible to the agency order while complying with the short sale price test.[105] The Exchange believes that including Responses with a short sale order in the underlying covered security may create additional competition in the Complex Facilitation and Complex Solicitation auction while also providing additional opportunity for potential price improvement for the agency order.

When a Response or an unrelated limit complex order on the complex order book includes a short sale order in the underlying covered security, NES would execute the order at its stated limit price or better if the facilitating member contra order or solicited contra-side Complex Order includes a short sale order in the underlying security component. In this case, each short sale compliant price would be considered in determining the price at which the auction order may execute, which would be at its stated limit price or better. In this scenario, because the facilitating member's contra order or solicited contra-side Complex Order are short, the Exchange will only consider prices that comply with the short sale price test in Rule 201 of Regulation SHO. In this case, all prices that are compliant with the short sale price test are considered when allocating the auction, and both the agency order and responders may receive a better price. The auction would allocate at the agency order's stated limited price or better depending on the prices of the Responses. The auction Responses may execute at their stated limited price or better depending on the final auction price. This is in contrast to the prior scenario where the facilitation member's contra order or contra-side solicited Complex Order does not need to comply with the short sale price test. Utilizing the proposed stated limit price or better where a facilitating member's contra order or contra-side solicited Complex Order includes a short sale order allows the Exchange to potentially provide price improvement opportunity to the agency order.

For these reasons, the processing of the stock/ETF component of a Facilitation or Solicited Complex Order under this proposal will comply with applicable rules regarding equity trading, including the rules governing trade reporting, trade-throughs and short sales. NES's responsibilities respecting these equity trading rules will be documented in NES's written policies and procedures. NES's compliance team currently updates, reviews and monitors NES's policies and procedures regarding equity trading rules on an annual basis and will continue to do so. NES is regulated by FINRA and as such, NES policies and procedures are subject to review and examinations by FINRA. Offering a seamless, automatic execution for both the options and stock/ETF components of a Facilitation or Solicited Complex Order is an important feature that should promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system by deeply enhancing the sort of complex order processing available on options exchanges today. Nevertheless, members could, in lieu of this proposed arrangement with NES, choose, instead, the following alternatives: (i) avoid using a Facilitation or Solicited Complex Order that involves stock/ETFs, (ii) use a trading floor to execute a Complex Order with stock, or (iii) go to another options venue, several of which offer a similar feature.[106]

The Exchange proposes to amend Options 3, Section 10 to add an applicability section identical to ISE Options 3, Section 10(c) at subparagraph (b).[107] This paragraph would make clear

[105] For example, utilizing a Complex Facilitation auction with a BBO of 0.05 × 0.10 and an NBBO for the underlying security component of 1.05 × 1.10, if the Initiating Member submitted an agency order to buy @1.13 and a contra-order to sell @1.13, with auto-match at any price point, and Responder 1 was long @1.10, and Responder 2 was short @1.10 (in this scenario 1.10 would not comply with the short sale price test), pursuant to the proposed amendment, the agency order would receive a price improvement allocation @1.10. In this scenario the improved price of 1.11 would not be allocated to the responder with a short sale rather the price improvement would be applied to the agency order. The Exchange believes it is important to offer price improvement to the agency order over the responder to the auction. Of note, Response 2 that was short @1.10 would be cancelled.

[106] Existing Complex Order mechanisms at Cboe, Inc. (''Cboe'') offers a similar end result. *See* Cboe 5.33(l).

[107] The Exchange would re-letter Options 3, Section 10(b) to ''c.''

that auctions are not subject to Options 3, Section 10 allocation unless Options 3, Section 10 is specifically referenced in the auction rule. Specifically, the Exchange proposes to state ''Applicability. This rule does not apply to the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), PIXL described within Options 3, Section 13, and orders described within Options 3, Section 12, unless Options 3, Section 10 is specifically referenced within ISE rules applicable to the aforementioned functionality.''

The Exchange proposes to add rule text about concurrent auctions at Options 3, Section 11(f) that is identical to ISE Options 3, Section 11(f). Specifically, the Exchange proposes to note at Options 3, Section 11(f) the limitations on concurrent Complex Strategy auctions as follows:

> Only one Exposure Auction at Supplementary Material .01 to Options 3, Section 14, Complex PIXL auction at Options 3, Section 13, Complex Facilitation Mechanism auction at Options 3, Section 11(c), or Complex Solicited Order Mechanism auction at Options 3, Section 11(e), respectively, will be ongoing at any given time in a Complex Strategy, and such auctions will not queue or overlap in any manner. The Exchange will not initiate an Exposure Auction, Complex PIXL auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction in a Complex Strategy while another Exposure Auction, Complex PIXL auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction in that Complex Strategy is ongoing. If a Complex PIXL auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction for a Complex Strategy has been initiated, an Exposure Auction for that Complex Strategy will not be initiated, and an Exposure Only Complex Order for the Complex Strategy will be cancelled back to the member. An Exposure Order for the Complex Strategy will be processed as an order that is not marked for price improvement.

These proposed limitations are identical to limitations in ISE at Options 3, Section 11(f).

The Exchange proposes to add rule text about concurrent Complex Order and single-leg auctions at Options 3, Section 11(g) that is identical to ISE Options 3, Section 11(g). Specifically, the Exchange proposes to add the following rule text to Options 3, Section 11(g),

> Concurrent Complex Order and single leg auctions. An auction in the Block Order Mechanism at Options 3, Section 11(a), Facilitation Mechanism at Options 3, Section 11(b), Solicited Order Mechanism at Options 3, Section 11(d), or PIXL at Options 3, Section 13, respectively, for an option series may occur concurrently with a Complex Order Exposure Auction at Supplementary Material .01 to Options 3, Section 14, Complex Facilitation Auction at Options 3, Section 11(c), Complex Solicited Order Auction at Options 3, Section 11(e), or Complex PIXL auction at Options 3, Section 13, respectively, for a Complex Order that includes that series. To the extent that there are concurrent Complex Order and single leg auctions involving a specific option series, each auction will be processed sequentially based on the time the auction commenced. At the time an auction concludes, including when it concludes early, the auction will be processed pursuant to Options 3, Section 11(a), (b), (d), or Section 13, as applicable, for the single option, or pursuant to Supplementary Material .01 to Options 3, Section 14, Options 3, Section 11(c), 11(e), Options 3, Section 13, as applicable, for the Complex Order, except as provided for at Options 3, Section 13.

This proposed new rule text makes clear that the Exchange will not permit multiple Complex Order auctions to be ongoing in a complex strategy, but will permit concurrent Complex Order strategy auctions to be ongoing with single leg auctions as explicitly noted in the new rule text. The Exchange believes that permitting single leg auctions to occur at the same time as a Complex Order auction as specified above would encourage market participants to utilize the single leg order auction mechanisms as well as the Complex Order mechanisms and, thereby remove impediments to, and perfect the mechanism of, a free and open market and national market system. A member that has auction-eligible interest to execute when another Complex Order auction is ongoing can either re-submit that order to the Exchange after the auction has concluded, or submit the order to another options market that provides similar auction functionality. Phlx market data feeds provide information to members about when a Complex Order auction is ongoing, and members can therefore use this information to make appropriate routing decisions.

With the adoption of the Facilitation and Solicited Order Mechanisms, the Exchange proposes to amend Options 3, Section 16, Complex Order Risk Protections.[108] The proposed Complex Order Risk Protections are identical to ISE Options 3, Section 16. Specifically, the Exchange proposes to provide that the strategy protections in Options 3, Section 16(b), which includes a Vertical Spread Protection, a Calendar Spread Protection, a Butterfly Spread Protection, and a Box Spread Protection, will not apply to Complex Orders being auctioned and auction Responses in the Facilitation Mechanism, Solicited Order Mechanism within Options 3, Section 11. This rule text is identical to ISE Options 3, Section 16(b). Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value.

Options 3, Section 12

Options 3, Section 12 is currently titled, ''Electronic Qualified Contingent Cross Order.'' The Exchange proposes to retitle the section ''Crossing Orders'' identical to the title of ISE Options 3, Section 12.

Customer Cross Orders

The Exchange proposes a Customer Cross Order at Options 3, Section 12 that is identical to ISE Options 3, Section 12. Currently, the Exchange offers market participants the ability to enter Public Customer-to-Public Customer Cross Order via its PIXL Mechanism at Options 3, Section 13(a) and (f) (''Public Customer-to-Public Customer Cross Order''). At this time, the Exchange proposes to relocate the placement of this functionality to Options 3, Section 12, identical to ISE. The Exchange believes that placing the Public Customer-to-Public Customer Cross Order with other crossing mechanisms in Options 3, Section 12 will make the functionality easier to locate in the Rulebook. The Exchange is not amending the current functionality of Public Customer-to-Public Customer Cross Order, rather the functionality is being relocated and the rule text is being harmonized to ISE's Customer Cross Order rules.[109]

[108] SR–Phlx–2025–17 proposed rule text at Options 3, Section 16(b) that provides, Strategy Protections. The following 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 PIXL within Options 3, Section 13. Additionally, the following protections will not apply when a Complex Order includes at least one P.M.-settled leg and at least one A.M.-settled leg. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[109] Of note, the proposed Customer Cross Order and current Public Customer-to-Public Customer Cross Order do not require exposure like a PIXL Order. Placing this order type in a new rule where other order types that do not require order exposure

Continued

Currently, the execution of a PIXL Order that is comprised of a Public Customer order to buy and a Public Customer to sell at the same price and for the same quantity is governed by Options 3, Section 13(a) and (f).[110] The Exchange proposes to remove the ability to enter such Public Customer-to-Public Customer Cross Orders directly into the PIXL auction for automatic execution. These orders would continue to be entered through FIX [111] but would not execute as a PIXL cross order. The Exchange notes that it recently adopted an ''Ouch to Trade Options'' or ''OTTO'' order entry protocol [112] that Phlx members may utilize to submit orders. Customer Cross Orders will also be able to be entered through the new OTTO protocol as well. Today, a Public Customer-to-Public Customer Cross Order may only be entered into PIXL and will receive the treatment described within current Options 3, Section 13(f).[113] With this proposal, the manner in which Public Customer-to-Public Customer Cross Order are being processed by the System is changing in that they will not execute through PIXL. Members would otherwise receive the same executions with a Customer Cross Order that Public Customer-to-Public Customer Cross Orders receive today when entered through PIXL.

The Exchange proposes to amend Options 3, Section 12, which is currently reserved, to adopt the title ''Crossing Orders'' to describe this process. The Exchange proposes to adopt Customer Cross Orders, within Options 3, Section 12(a), which is identical to ISE Options 3, Section 12(a).

In particular, the Exchange proposes to add a definition of a Customer Cross Order at Options 3, Section 7(i) specifying that a Customer Cross Order is comprised of a Public Customer Order to buy and a Public Customer Order to sell at the same price and for the same quantity and such order will trade in accordance with Options 3, Section 12(a). This definition is identical to ISE Options 3, Section 7(i). The Exchange proposes to adopt Options 3, Section 12(a) to specify that Customer Cross Orders are automatically executed upon entry provided that the execution is at or between the best bid and offer on the Exchange and (i) is not at the same price as a Public Customer Order on the Exchange's limit order book and (ii) will not trade through the NBBO. Further, Customer Cross Orders will be automatically canceled if they cannot be executed. Customer Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3. Current Options 3, Section 22(b)(1) [114] describes the entry and execution of Customer Cross Orders.

With this proposal, the execution of a Customer Cross Order would continue to neither execute at the same price as a Public Customer Order on the Exchange's limit order book, nor trade through the NBBO. In connection with this proposed change, the Exchange proposes to remove the last sentence of the first paragraph of Options 3, Section 13 that notes that the execution of a PIXL Order that is comprised of a Public Customer order to buy and a Public Customer is governed by Options 3, Section 13(a) and (f). The Exchange also proposes to remove the sentence in current Options 3, Section 13(a) that states, ''Pursuant to paragraph (f), the Exchange will allow a Public Customer-to-Public Customer PIXL Order to trade on either the bid or offer, if the NBBO is $0.01 wide, provided (1) the execution price is equal to or within the NBBO, (2) there is no resting Public Customer at the execution price, and (3) $0.01 is the Minimum Price Variation (MPV) of the option.'' Finally, the Exchange proposes to remove current Options 3, Section 13(f) which describes the manner in which a PIXL Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PIXL Auction.

The Exchange would re-letter Options 3, Section 13(g) as ''f.'' The Exchange is eliminating current Options 3, Section 13(f) because paired Public Customer Orders would no longer be entered as PIXL Orders. The Exchange notes that Customer Cross Orders would continue to be executed in the same manner as today within PIXL with paired Public Customer Orders. Today, the execution price may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public Customer order. Today, the execution price for such a PIXL Order must be expressed in the quoting increment applicable to the affected series or stated otherwise, the minimum increments noted in Options 3, Section 3. Finally, today the paired Public Customer Orders would cancel if not executed.

The prohibition expressed within current Phlx Options 3, Section 13(f) provided that a paired Public Customer Order may be entered provided there is not currently an Auction in progress in the same series or same strategy.[115] Today, to initiate the Auction, the Initiating member must mark the PIXL Order for Auction processing. With this proposal, paired Public Customer Orders would not be tagged as a PIXL Auction. The paired Public Customer Orders would be entered as a separate cross and therefore would not potentially cause more than one PIXL Auction to occur in the same series. In conjunction with this change, Phlx proposes to add Customer Cross Orders to Options 3, Section 22(b) and (c) as an exception to the rules for limitations on principal transactions and solicitation orders, which require members to expose trading interest to the market before executing agency orders as principal or before executing agency orders against orders that were solicited from other broker-dealers.

The Exchange proposes to add a sentence to the end of current Options

are located will reduce confusion as to the order type.

[110] *See* current Options 3, Section 13.

[111] ''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).

[112] OTTO was adopted in SR–Phlx–2025–05. *See* Securities Exchange Act Release No. 102337 (February 4, 2025), 90 FR 9267 (February 10, 2025) (SR–Phlx–2025–05). SR–Phlx–2025–05 will be implemented at the same time as this proposal.

[113] In lieu of the procedures in paragraphs (a)–(b) of Options 3, Section 13, an Initiating member may enter a PIXL Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public Customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO including Reference BBO or at the same price as a resting Public Customer Complex Order. *See* current Options 3, Section 13(f).

[114] Current Options 3, Section 22(b)(1) prevents a member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an member to establish a relationship with a customer or other person (including affiliates) to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of this Rule for a member to be a party to any arrangement designed to circumvent this Rule by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member immediately upon their entry into the System.

[115] *Id.*

3, Section 22(b)(1), which currently exists within Options 3, Section 13(f).[116] Specifically, the Exchange proposes to add ''Further, it would be a violation of this Rule for an Options Participant to circumvent this Rule by providing an opportunity for (A) a Public Customer affiliated with the Participant, or (B) a Public Customer with whom the Participant has an arrangement that allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as Public Customer-to-Public Customer immediate crosses.'' The addition of this sentence to Options 3, Section 22(b)(1) will continue to make clear the type of behavior that is prohibited when executing Customer Cross Orders and for any other functionality in Phlx's rules. The Exchange would surveil Customer Cross Orders in the same fashion that it already surveils for these orders on ISE. ISE Supplementary Material .01 to Options 3, Section 22 and proposed Phlx Options 3, Section 22(b)(1) both prevent a executions of agency orders to increase its economic gain from trading against the order without first giving other trading interests on the exchange an opportunity to either trade with the agency order or to trade at the execution price when a market participant was already bidding or offering on the book.

Additionally, the Exchange proposes to offer Complex Customer Cross Orders at proposed Options 3, Section 12(b) that is identical to ISE Options 3, Section 12(b).

Today, Complex paired Public Customer Orders are executed in PIXL. With this proposal, similar to single-leg Customer Cross Orders, the Exchange proposes to remove the ability to enter Complex paired Public Customer orders as a PIXL cross although they will continue to be entered through FIX (and OTTO as noted above) directly as Complex Customer Cross Orders.

As is the case today within PIXL, with this proposal Complex Customer Cross Orders would be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Public Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Options 3, Section 14(c)(2).[117] Complex Customer Cross Orders will be rejected if they cannot be executed. As is the case for single-leg Customer Cross Orders, Options 3, Section 22(b)(1) applies to Complex Customer Cross Orders.

As is the case for any Complex Order with a stock/ETF component, and as described in this proposal, members may only submit Complex Customer Cross Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Members submitting such 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 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 orders containing a stock/ETF component.

Also, as described herein with respect to any Complex Order with a stock/ETF component, where one component of a Complex Customer Cross Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex Customer Cross Order to NES, its designated broker-dealer, for immediate execution. Such execution and reporting will not occur on the Exchange and will be handled by NES pursuant to applicable rules regarding equity trading. The execution price must be within a certain price from the current market, as determined by the Exchange. If the stock price is not within these parameters, the Complex Customer Cross Order is not executable. Finally, as described in this proposal, 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 Customer Cross 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 Customer Cross 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 Customer Cross Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Customer Cross Order to the entering member. For purposes of this paragraph, the term ''covered security'' shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

With the adoption of Customer Cross Orders, the Exchange proposes to amend Options 3, Section 16, Complex Order Risk Protections.[118] Specifically, the Exchange proposes to provide that the strategy protections in Options 3, Section 16(b), which include a Vertical Spread Protections, a Calendar Spread Protection, a Butterfly Spread Protection, and a Box Spread Protection, will not apply to Complex Customer Cross Orders pursuant to Options 3, Section 12. This rule text is identical to ISE Options 3, Section 16(b). A Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance by both parties it is unlikely that the parties would agree to transact at prices that would necessitate these protections.

Qualified Contingent Cross Orders

The Exchange proposes to relocate and amend the description of a Qualified Contingent Cross Order or ''QCC Order'' from Options 3, Section 7(b)(8) which states that a QCC Order is as that term is defined in Options 3, Section 12. The Exchange proposes to harmonize the rule text at Options 3, Section 12 to ISE Options 3, Section 12.

Specifically, the Exchange proposes to provide more detail and instead provide at Options 3, Section 7(j), that a Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order or orders totaling an equal number of contracts. QCC Orders will trade in accordance with Options 3, Section 12(c). QCC Orders may only be entered through FIX. This description is identical to ISE Options 3, Section 7(j), except that Phlx does not offer Precise and ISE offers that Precise in addition to FIX.

The Exchange proposes aligning its QCC functionality to that of ISE at

[116] *Id.*

[117] *See supra* note 31.

[118] Options 3, Section 16 was amended in SR–Phlx–2025–71. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this rule change as they are both part of the same technology migration.

Options 3, Section 12. Today, Phlx offers QCC Orders electronically and on its trading floor. The amendments to Options 3, Section 12 solely relate to electronic trading. The amendments to Options 3, Section 8 apply to floor trading. Phlx separately received approval for electronic QCC Orders [119] and Floor QCC Orders.[120] Phlx will describe its Floor QCC below.

Phlx's QCC Order facilitates the execution of stock/option Qualified Contingent Trades that satisfy the requirements of the trade through exemption in connection with the QCT Trade Exemption. A Phlx member may effect a QCC Order provided the QCC Order: (i) is at least 1,000 contracts, (ii) meets the QCT Trade Exemption, (iii) is executed at a price at or between the better of the PBBO [121] or the NBBO; and (iv) is rejected if a Public Customer order is resting on the Exchange book at the same price. Phlx Options 3, Section 12(a) currently provides that,

A Qualified Contingent Cross Order is comprised of an originating electronic order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in subsection (3) below, coupled with a contra-side order or orders totaling an equal number of contracts.

(1) Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no Public Customer orders are at the same price on the Exchange's Limit Order book and (ii) the price is at or between the better of the PBBO and the NBBO.

(A) Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.

(B) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

(2) Qualified Contingent Cross Orders shall only be submitted electronically from off the Floor to the System. Order Entry Firms must maintain books and records demonstrating that each Qualified Contingent Cross Order was routed to the Exchange System from off of the Floor. Any Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered from on the Floor in violation of this Rule.

Current Options 3, Section 12(a)(3) describes a ''qualified contingent trade.'' The Exchange proposes to relocate the QCT Trade Exemption described in Options 3, Section 12(a)(3) to Supplementary Material .01 to Options 3, Section 7 [122] without change. ISE also describes the QCT Trade Exemption in Supplementary Material .01 to Options 3, Section 7. The QCT Trade Exemption applies to trade-throughs caused by the execution of an order involving one or more NMS stocks that are components of a ''qualified contingent trade.'' The Exchange also proposes to amend Options 8, Section 30(e)(3), related to a Floor QCC, to refer to the description of a ''qualified contingent trade'' at proposed to Supplementary Material .01 to Options 3, Section 7. Also, current Supplementary Material .01 to Options 3, Section 12 notes that Stop Orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of QCC Orders.

Options 8, Section 32(e) describes a Floor QCC Order as a Floor Qualified Contingent Cross Order comprised of an originating order to buy or sell at least 1,000 contracts, as provided in Options 8, Section 30(e), that is identified as being part of a qualified contingent trade, as that term is defined in subsection Options 8, Section 30(e)(3), coupled with a contra-side order or orders totaling an equal number of contracts. Phlx Options 8, Section 30(e) similarly provides that a Floor QCC Order is comprised of an originating order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade, coupled with a contra-side order or orders totaling an equal number of contracts. Also, Options 8, Section 30(e)(1) provides that Floor QCC Orders are immediately executed upon entry into the System by an Options Floor Broker provided that (i) no Public Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO. Floor QCC Orders shall be submitted into the System by Floor Brokers on the Floor or remotely via the Options Floor Based Management System. Pursuant to Options 8, Section 30(e)(1)(a), a Floor Broker does not have to be present on the Exchange's Trading Floor to submit a Floor QCC Order to the System. A Floor Broker may remotely submit a Floor QCC Order to the System through the Options Floor Based Management System. Pursuant to Options 8, Section 30(e)(1)(b), Floor QCC Orders will be automatically cancelled if they cannot be executed. Pursuant to Options 8, Section 30(e)(1)(c), Floor QCC Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

Pursuant to Options 8, Section 30(e)(2), Options Floor Brokers may not enter Floor QCC Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion. Options Floor Brokers must maintain books and records demonstrating that each Floor QCC Order was not entered for a prohibited account. Any Floor QCC Order that does not have a corresponding record required by this subsection shall be deemed to have been entered for a prohibited account in violation of Options 8, Section 30(e)(2).

At this time, the Exchange proposes to remove the rule text at Options 3, Section 12(a) related to a QCC Order as well as the rule text in Supplementary Material .01 to Options 3, Section 12 and replace that language in new Options 3, Section 12(c) with rule text identical to ISE Options 3, Section 12(c) as follows:

Qualified Contingent Cross Orders. Qualified Contingent Cross Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Public Customer Order on the Exchange's limit order book and (ii) is at or between the better of the internal PBBO or the NBBO.

(1) Qualified Contingent Cross Orders will be automatically canceled if they cannot be executed.

(2) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under in Options 3, Section 3.

The Exchange notes that QCC Orders that are currently offered on Phlx are identical to QCC Orders offered on ISE. The Exchange seeks to harmonize the rule text across its Nasdaq affiliated exchanges to reflect the harmonized functionality. Phlx would continue to comply with its current QCC Order requirements.

With respect to QCC Complex Orders, the Exchange proposes to adopt rule text identical to ISE Options 3, Section 12(d) which provides,

Complex Qualified Contingent Cross Orders. Complex Options Orders may be entered as Qualified Contingent Cross Orders, as defined in Options 3, Section 7(j). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the Complex Order Book; (ii) there are no Public Customer Complex Options Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options

[119] *See* Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR–Phlx–2011–47) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASDAQ OMX PHLX LLC To Establish a Qualified Contingent Cross Order).

[120] *See* Securities Exchange Act Release No. 64415 (May 5, 2011), 76 FR 27732 (May 12, 2011) (SR–Phlx–2011–56) (Notice of Filing of Proposed Rule Change To Establish a Qualified Contingent Cross Order for Execution on the Floor of the Exchange).

[121] The PBBO represents Phlx's best bid and offer.

[122] *See supra* note 94.

legs can be executed at prices that (A) are at or between the better of the internal PBBO or the NBBO for the individual series, and (B) comply with the provisions of Options 3, Section 14(c)(2)(i), provided that no legs of the Complex Options Order can be executed at the same price as a Public Customer Order on the Exchange in the individual options series. Complex Qualified Contingent Cross Orders will be rejected if they cannot be executed. Complex Qualified Contingent Cross Orders may be entered in one cent increments. Each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for Qualified Contingent Cross Orders.

As proposed, Phlx Complex QCC Orders would automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the Complex Order Book; (ii) there are no Public Customer Complex Options Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that (A) are at or between the better of the internal PBBO or the NBBO for the individual series, and (B) comply with the provisions of Options 3, Section 14(c)(2)(i),[123] provided that no legs of the Complex Options Order can be executed at the same price as a Public Customer Order on the Exchange in the individual options series. Complex QCC Orders will be rejected if they cannot be executed. Also, each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for QCC Orders. The Exchange notes that Complex QCC Orders that are currently offered on Phlx are identical to Complex QCC Orders offered on ISE with one distinction, with this proposal, Complex QCC Orders may be entered in one cent increments.[124]

Today, Complex QCC Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3, Minimum Increments.[125] The Exchange proposes to amend the minimum increments for Complex QCC Orders from the minimum increments standard within Options 3, Section 3 to the minimum increments allowable for Complex Orders at Options 3, Section 14(c)(1),[126] which permit bids and offers for Complex Options Strategies to 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. The Exchange notes that Cboe Rule 5.4(b) similarly permits a Complex QCC Order[127] to trade in $0.01 increments. The Exchange's proposed Complex QCC Orders should be permitted to be entered in $0.01 increments, identical to ISE Options 3, Section 14(c)(1). This amendment would place Complex QCC Orders on the same footing as other types of Complex Orders that would trade on Phlx and with Complex QCC Orders traded on Cboe and ISE.[128] The pricing of a Complex Order, whether or not it is a QCC Order, is based on the relative price of one option leg to another (as opposed to the outright price of a single option). In this case the standard increment of trading of the individual legs of a Complex Order is less relevant to the pricing of the Complex Order. In addition, each option leg of a Complex QCC Order would continue to meet the same requirements as today for execution as a Complex QCC Order. The Exchange proposes to harmonize the rule text across its Nasdaq affiliated exchanges to reflect the harmonized functionality.

The proposed changes to QCC Orders at Options 3, Section 12 and Complex QCC Orders at Options 3, Section 12 would apply equally to electronic QCC Orders and Floor QCC Orders. The proposal will not amend the System handling of Floor QCC Orders other than to amend the minimum increments as described above for electronic QCC Orders.

Further, the Phlx Floor QCC order granting approval[129] noted that Phlx analyzed the application to Floor QCC Orders of Section 11(a) of the Act[130] and the rules thereunder. Section 11(a)[131] contains multiple exemptions, including exemptions for those acting in the capacity of market makers, as odd-lot dealers, and those engaged in stabilizing conduct; there are also rule-based exemptions such as the ''effect vs. execute'' exception under SEC Rule 11a2–2(T)[132] under the Act. In analyzing Floor QCC Orders, the Commission found that the proposed rule change to establish a Floor QCC Order was consistent with Section 11A(a)(1)(C)[133] of the Act.[134] The Exchange notes that it will continue to prohibit Options Floor Brokers from entering Floor QCC Orders for their own accounts, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion.[135] Phlx Options 8, Section 30(e)(2)[136] continues to be designed to remove even a theoretical time and place advantage available to an Options Floor Broker on the Floor of the Exchange that is reflected in the prohibitions of Section

[123] Phlx Options 3, Section 14(c)(2)(i) states, 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 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. Phlx separately filed a proposal to adopt Complex Order functionality identical to ISE Options 3, Section 14 with SR–Phlx–2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[124] *See* ISE Options 3, Section 12(b).

[125] Options 3, Section 3(a) provides, except as provided in Supplementary Material to Options 3, Section 3 below, all options on stocks, index options, and Exchange Traded Fund Shares trading at a price of $3.00 or higher shall have a minimum increment of $.10, and all options on stocks and index options trading at a price under $3.00 shall have a minimum increment of $.05.

[126] Phlx separately filed a proposal to adopt Complex Order functionality identical to ISE Options 3, Section 14 with SR–Phlx–2025–17. *See also supra* note 35.

[127] Cboe defines a Complex QCC Order as a QCC Order with more than one option leg. *See* Cboe 5.6(b).

[128] *See* Cboe Rule 5.4(b) and ISE Options 3, Section 3. Phlx separately filed a proposal to adopt Complex Order functionality identical to ISE Options 3, Section 14 with SR–Phlx–2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[129] *See* Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR–Phlx–2011–56) Order Granting Approval of Proposed Rule Change Establishing a Qualified Contingent Cross Order for Execution on the Floor of the Exchange).

[130] 15 U.S.C. 78k(a)(1). Generally, Section 11(a)(1) of the Act restricts any member of a national securities exchange from effecting any transaction on such exchange for: (i) the member's own account, (ii) the account of a person associated with the member, or (iii) an account over which the member or a person associated with the member exercises discretion, unless a specific exemption is available.

[131] *Id.*

[132] *See* 17 CFR 240.11a2–2(T).

[133] 15 U.S.C. 78k–1(a)(1)(C).

[134] 76 FR 36606 at 36607.

[135] *See* Options 8, Section 30(e)(2).

[136] Options 8, Section 30(e)(2) states, Options Floor Brokers shall not enter Floor Qualified Contingent Cross Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion. Options Floor Brokers must maintain books and records demonstrating that each Floor Qualified Contingent Cross Order was not entered for a prohibited account. Any Floor Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered for a prohibited account in violation of Options 8, Section 30(e)(2).

11(a) [137] of the Exchange Act and the rules thereunder. The Floor QCC Order does not differ from the electronic QCC Order due to the Options Floor Broker's presence on the Floor.

At this time, the Exchange proposes to remove the current rule text in Options 8, Section 30(e) and (e)(1), (e)(1)(b) and (c), applicable to Floor QCC Orders and provide that a Floor QCC Order shall be transacted as specified in Options 3, Section 12(c) and (d). The Exchange proposes to retain the rule text in Options 8, Section 30(e)(1)(a) and renumber that rule text as Options 8, Section 30(e)(1). The Exchange also proposes to retain the rule text at Options 8, Section 30(e)(2) and (3) with the change noted above for the citation to the qualified contingent trade description to Supplementary Material .01 to Options 3, Section 7. The Exchange believes these amendments to Options 8, Section 30(e) will harmonize the electronic and floor rule text related to QCC functionality.

Finally, the Exchange notes that it is removing the rule text concerning Stop Orders from Supplementary Material .01 to Options 3, Section 12 and Supplementary Material .03 to Options 8, Section 30 that address QCC Order and Floor QCC Order. Today, Stop Orders which have not been elected are not protected orders and are thus not considered for acceptance or execution. Stop Orders behave in this manner across all functionalities on Phlx, not just QCC functionalities. For this reason, the Exchange proposed to adopt the descriptions of Stop Order and Stop Limits Order identical to ISE Options 3, Section 7(d) and (e) in a separate rule change.[138] The election process for a Stop Order is described in Options 3, Section 7(d) and therefore the rule text in Supplementary Material .01 to Options 3, Section 12 and Supplementary Material .03 to Options 8, Section 30 is unnecessary, as a Stop Order behaves the same throughout all trading functionalities.

Options 3, Section 13

The Exchange proposes to amend certain rule text in Options 3, Section 13, related to PIXL, to align its rule ISE Options 3, Section 13 in certain respects.[139]

In the first paragraph of Options 3, Section 13, the Exchange proposes to amend the reference to sub-paragraph (a)(6) to (a)(7) as explained further below. The Exchange already noted that it was removing references to Options 3, Section 13(a) and (f) in connection with its proposal to adopt Customer Crossing Orders at Options 3, Section 12.

The Exchange proposes to amend its order entry check for PIXL Orders for less than 50 options contracts at Options 3, Section 13(a)(1) to align this entry check to ISE Options 3, Section 13(b)(1). Today, on Phlx, if the PIXL Order (except if it is a Complex Order) is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer (''NBBO'') is $0.01, the Initiating Member must stop the entire PIXL Order at a price that is: (A) $0.01 better than the NBBO on the opposite side of the market from the PIXL Order, and (B) on the same side of the market as the PIXL Order, (i) equal to or better than the NBBO and (ii) better than any Limit Order on the Limit Order book. If the PIXL Order is for a Non-Public Customer, the PIXL Order must also be better than any quote on the same side of the market as the PIXL Order.

At this time, the Exchange proposes to instead provide, that if the PIXL Order (except if it is a Complex Order) is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer (''NBBO'') or the difference between the internal best bid and the internal best offer (''internal PBBO'') is $0.01, the Initiating Member must stop the entire PIXL Order at a price that is: (A) equal to or better than the NBBO and the internal market PBBO on the opposite side of the market from the PIXL Order, and(B) on the same side of the market as the PIXL Order, (i) equal to or better than the NBBO and (ii) better than any Limit Order on the Limit Order book. If the PIXL Order is for a Non-Public Customer, the PIXL Order must also be better than any quote on the same side of the market as the PIXL Order. Today, Phlx re-prices orders that would otherwise lock or cross an away market.[140] Specifically, an order 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 MPV above (for offers) or below (for bids) the national best price.[141] With this re-pricing, an Exchange order could be available at a price that is better than the NBBO, but is non-displayed (*i.e.,* the Exchange's non-displayed order book or ''internal PBBO''). Accordingly, the Exchange proposes to add the concept of the internal best bid and the internal best offer or ''internal PBBO'' in the order entry checks for a PIXL Auction in Options 3, Section 13(a)(1) to account for a non-displayed better price that may be available on the Exchange order book. The Exchange proposes a similar change to Options 3, Section 13(a)(1)(A) which currently provides, ''(A) $0.01 better than the NBBO on the opposite side of the market from the PIXL Order . . .''. The Exchange would also add ''and the internal PBBO.''

Example 13

Assume Phlx Market Maker quotes an option series at 1.09 (10) × 1.15 (10)

Next assume ABBO quotes that option series at 1.10 (10) × 1.11 (10)

Assume an order locks the ABBO quote with a buy order in that options series of 5 @ 1.11

With the proposed repricing, this order would book at 1.11 and display 1 MPV (Penny in this case) away at 1.10 on the order book

In this scenario:

- the PIXL to buy 49 @1.10 would be rejected because it is not priced better than the limit order on the limit order book on the same side of the market
- the PIXL to buy 49 @1.11 would be rejected because it is not priced better than the limit order on the limit order book on the same side of the market;
- the PIXL to sell 49 @1.10 would be rejected because it is not priced better than the NBBO or internal BBO on the opposite side of the market; and
- the PIXL to sell 49 @1.11 would be rejected because it is not priced better than the internal BBO on the opposite side of the market

The Exchange proposes similar changes within Options 3, Section 13(a)(2), if the PIXL Order is for the account of a Public Customer and such order is for 50 options contracts or more, to add references to ''difference between the internal PBBO.'' Additionally, the Exchange proposes to remove the words ''Reference BBO'' as

[137] 15 U.S.C. 78k(a)(1).

[138] Options 3, Section 7(d) was revised by 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.

[139] *See supra* note 6.

[140] *See* current Phlx Options 3, Section 5(d), an order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing 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.

[141] *Id.*

that term is no longer necessary. This proposed change aligns Phlx Options 3, Section 13(a)(2) to ISE Options 3, Section 13(b)(2). Below is an example of how the System would treat an order for 50 contracts or more where the internal PBBO is greater than the NBBO with respect to the rule text within Options 3, Section 13(a)(2).

Example 14

Assume Phlx Market Maker quotes an option series at 1.09 (10) × 1.15 (10)
Next assume ABBO quotes that option series at 1.10 (10) × 1.11 (10)
Assume an order locks the ABBO quote with a buy order in that option series at 5 @1.11
With the proposed repricing this order would book at 1.11 and display 1 MPV (penny in this case) away at 1.10 on the order book

In this scenario:

- the PIXL to buy 50 @1.10 would be rejected because it is not priced better than the limit order on the limit order book on the same side of the market.
- the PIXL to buy 50 @1.11 would be rejected because it is not priced better than the limit order on the limit order book on the same side of the market.
- the PIXL to sell 50 @1.10 would be rejected because it is not priced equal to better than the internal BBO on the opposite side of the market; and
- the PIXL to sell 50 @1.11 would be accepted because it is equal to the internal BBO on the opposite side of the market and would begin a PIXL auction.

Assuming no other interest arrives during the PIXL auction timer, this order would trade at the end of the auction timer, thereby filling the order 5 @1.11 and the remainder would allocate to the contra side/counter side order.

Finally, the Exchange proposes to also amend Options 3, Section 13(a)(3) for a PIXL Order for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more. Similar to the proposed changes to Options 3, Section 13(a)(1), (a)(1)(A) and (a)(2), the Exchange would add references to ''difference between the internal PBBO'' and remove the term ''Reference BBO.'' Further, with respect to Options 3, Section 13(a)(3), the Exchange proposes to align the rule text to ISE Options 3, Section 13(b)(3) for the same side entry checks. The Exchange proposes to state, if the PIXL Order (except if it is a Complex Order) is for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO or the difference between the internal PBBO is greater than $0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is: . . . on the same side of the market as the PIXL Order (i) *at least* $0.01 better than any Limit Order or quote on the Phlx order book, and (ii) equal to or better than the NBBO. With this proposed change, the Exchange is relocating ''the better of'' and the reference to the $0.01 to proposed Options 3, Section 13(a)(3)(B)(i). This proposal aligns Phlx Options 3, Section 13(a)(3) to ISE Options 3, Section 13(b)(3).

The Exchange proposes to amend Options 3, Section 13(a)(4) to remove a reference to conforming ratios because that requirement is covered in Options 3, Section 13(b)(4)(B). The Exchange also proposes to amend Options 3, Section 13(b)(4)(A) and (B) to add the phrase ''on both sides of the market'' to the Complex Order entry checks. Today, Phlx's System checks to see if a PIXL Order is at a price that is better than the best net price (debit or credit) available on the Complex Order Book on both sides of the market, regardless of the Complex Order book size, and also improves the net price that is achievable from the best Phlx bids and offers for the individual options on both sides of the market. The System check on both sides of the market ensures a robust entry price to start a Complex PIXL Auction. Also, the Exchange believes that noting ''both sides of the market'' in the entry check provides greater transparency as to the current System functionality. Additionally, the Exchange proposes to remove the phrase ''provided in either case that such price is equal to or better than the PIXL Order's limit price'' in Options 3, Section 13(b)(4)(B). The Exchange notes that this rule text is unnecessary because with any two-sided order, it is a given that the prices must be marketable to allow for execution of both sides.

Today, pursuant to Options 3, Section 13(a)(7), PIXL Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be rejected. The Exchange proposes to remove this rule text and not restrict the submission of a PIXL Order in the final two seconds of trading.[142] The Exchange believes that permitting orders in the final two seconds would allow for the execution of additional PIXL auction orders in a manner identical to ISE. To remain competitive with these other options markets (ISE and Nasdaq MRX, LLC), Phlx would no longer restrict these executions. The Exchange proposes to renumber current Options 3, Section 13(a)(8) as ''7.''

Currently, Phlx Options 3, Section 13(b)(1)(A) provides that once commenced, an Auction may not be cancelled and shall proceed as follows: (1) Auction Period and PIXL Auction Notification (''PAN'').

To initiate the Auction (except if it is a Complex Order), the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the PIXL Order (a ''stop price''); (ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest (''auto-match'') in which case the PIXL Order will be stopped at the better of the NBBO or the Reference BBO on the Initiating Order side; or (iii) that it is willing to either: a) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a ''Not Worse Than'' or ''NWT'' price); b) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or c) stop the entire order at the better of the NBBO or Reference BBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the PBBO on the same side of the market as the PIXL Order represents a Limit Order on the book, the stop price must be at least $0.01 better than the booked Limit Order's limit price. Once the Initiating Member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (i)–(iii) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution.

Today, a member may specify (1) a single price at which it seeks to execute the PIXL Order, (2) an instruction to auto-match at the market price, or (3) an instruction to auto-match at a specified limit price. The current language provides these options, but then goes on to specify the variety of limit prices at which the order would stop the PIXL Order.

With these amendments, Phlx proposes to simplify this language, which is currently overcomplicated. The Exchange proposes to amend Options 3, Section 13(b)(1)(A) to instead provide that to initiate the Auction (except if it is a Complex Order), the Initiating member must mark the PIXL

[142] ISE Options 3, Section 13 PIM functionality does not restrict the submission of a PIXL Order in the final two seconds of trading.

Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the PIXL Order (a ''stop price''); or (ii) that it is willing to either: (a) stop the entire order at a single stop price and automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses and trading interest (''auto-match''); or (b) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a ''Not Worse Than'' or ''NWT'' price). The Exchange believes that this amended language is clear and concise.

As is the case today, if the PBBO on the same side of the market as the PIXL Order represents a Limit Order on the book, the stop price must be at least $0.01 better than the booked Limit Order's limit price. Once the Initiating member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Today, under any of the circumstances described in subparagraphs (b)(i)–(iii) of Options 3, Section 13(b)(1)(A), the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. The Exchange proposes to amend this sentence to provide, ''Under any of the circumstances described in subparagraphs (i)–(ii) [143] above, the NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.'' The Exchange proposes to remove the words ''stop price'' because this sentence is referring to auto-match instructions being able to be modified to the benefit of the PIXL Agency Order. Because the auto-match instructions cannot be canceled, the Exchange believes it is more accurate to refer to NWT price only, as that is the price that will be used when auto-matching.

The Exchange proposes to amend Phlx Options 3, Section 13(b)(1)(A) to clarify that, under no circumstances will the Initiating member receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, except for rounding, when competing quotes, orders or PAN responses have contracts available for execution. The Exchange notes that rounding is an exception to the applicable maximum percentage. This proposed rule text aligns to current ISE PIM functionality. The Exchange also proposes to note at proposed new Supplementary Material .01 to Options 3, Section 13 that if an allocation would result in less than one contract, then one contract will be allocated. This new rule text aligns to ISE Supplementary .03 to Options 3, Section 13. Of note, ISE rounds up identical to Phlx's proposal. ISE Options 3, Section 13(d)(7) notes that under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 40% of the original size of the PIM Order with one or multiple competing quote(s), order(s), or Improvement Order(s), except for rounding, when competing quotes, orders, or Improvement Orders have contracts available for execution.

The Exchange proposes to amend Options 3, Section 13(b)(1)(B) to amend the sentence which states, ''Under any of the circumstances described in sub-paragraphs (i)–(ii) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.'' The Exchange proposes to remove the words ''stop price'' because this sentence is referring to auto-match instructions being able to be modified to the benefit of the PIXL Agency Order. Because the auto-match instructions cannot be canceled, the Exchange believes it is more accurate to refer to NWT price only, as that is the price that will be used when auto-matching.

The next paragraph within Options 3, Section 13(b)(1)(B) concerns Surrender. When starting an Auction, the Initiating member may submit the Initiating Order with a designation of ''surrender'' to the other PIXL participants (''Surrender''), which will result in the Initiating member forfeiting the priority and trade allocation privileges which the participant is otherwise entitled to as per Options 3, Section 13(b)(5)(B)(i) and (ii). If Surrender is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating member than that which the Initiating member would have otherwise received in accordance with the allocation procedures set forth in Options 3, Section 13. Surrender information will not be available to other market participants and may not be modified.

The Exchange proposes to amend the first sentence of the above-referenced paragraph to describe ''Surrender.'' The Exchange proposes to state, ''For purposes of this Rule, Surrender shall mean the target allocation percentage the contra-side requests to be allocated from 0% to 39%. If the Initiating member requests 40% for the contra-side, then the contra-side order would receive its full priority and trade allocation provisions that it would be entitled to pursuant to Section 13(b)(5)(B)(i) and (ii).'' The Exchange believes that this proposed rule text will make clear the manner in which the System will handle the proposed configurable percentage designation. The Exchange then proposes to amend the next sentence to provide, ''When starting an Auction, the Initiating member may submit the Initiating Order with a percentage designation (a percentage from 0% up to 40% as noted above) of ''Surrender'', which will result in the Initiating member being allocated its designated percentage pursuant to Section 13(b)(5)(B)(i) and (ii).'' This proposed rule text would permit an Initiating member to submit an Initiating Order with a percentage for ''Surrender'' up to 40%, although the percentage may be lower. Today, the System permits a member to have either a Surrender of 0% or 40%. Today, ISE Options 3, Section 13(e)(5)(iii) related to PIM Complex Orders, has a configurable Surrender provision.[144] The proposed

[143] The Exchange proposes a technical amendment to change ''(iii)'' to ''(ii)'' given the amendments to the rule text.

[144] *See* ISE Options 3, Section 13(e)(5)(iii) which provides, in the case where the Counter-Side Complex Order is at the same net price as Professional interest on the Complex Order Book in (ii) above, the Counter-Side Complex Order will be allocated the greater of one (1) contract or forty percent (40%) (or such lower percentage requested by the Member) of the initial size of the Agency Complex Order before other Professional interest on the Complex Order Book are executed. Upon entry of Counter-Side Complex Orders, Members can elect to automatically match the price and size of Complex Orders, Improvement Complex Orders received on the Complex Order Book during the exposure period up to a specified limit net price or without specifying a limit net price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to Members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a Member elects to auto-match, the Counter-Side Complex Order will be allocated its full size at each price point, or at each price point within its limit net price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side Complex Order shall be allocated the greater of one contract or forty percent (40%) (or such lower percentage requested by the Member) of the original size of the Agency Complex Order, but only after Public Customer Complex Orders and Improvement Complex Orders at such price point are executed in full. Thereafter, all Professional Complex Orders and Improvement Complex Orders at the price point will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the

text indicates that the percentage could be 40% or a lower percentage for priority and allocation by stating, ''. . . which will result in the Initiating member being allocated its designated percentage pursuant to (b)(5)(B)(i).''

By way of example, an Initiating member may submit an Initiating Order with a ''Surrender'' percentage designation of up to forty percent (40%). If a surrender percentage designation of 40% is submitted, this would indicate no surrender.[145] If a surrender percentage designation between 0–39% is elected, this would indicate the Initiating member has surrendered their full 40% allocation entitlement and would retain only a lesser percentage designation that the member elected (between 0% and 39%). In this instance, the Initiating member will not be eligible to receive the highest possible allocation of fifty percent (50%) unless there are contracts left after including all orders, quotes, and responses. The 50% allocation is possible if only one other quote, or PAN response matches the stop price and the Initiating member has not chosen to designate any percentage designation of ''Surrender.'' A designation of Surrender will result in the Initiating member forfeiting all or a portion of their 40% enhanced allocation carve out to the other PIXL participants. The percentage that is being submitted represents the percentage of allocation being requested by the contra-side party.

The Exchange proposes to amend the current rule text, within Options 3, Section 13(b)(1)(B), which provides, ''. . . forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per . . .''. This rule text is being removed in favor of simply citing directly to the allocation provisions (Options 3, Section 13(b)(5)(B)(i)). Also, the current rule text, ''with a designation of ''surrender'' to the other PIXL participants (''Surrender'')'' is being removed because the proposed rule text defines ''Surrender'' as the percentage designation, which the Exchange believes more accurately defines ''Surrender'' within the rule text.

The Exchange is revising the second sentence of Options 3, Section 13(b)(1)(B), which currently provides, ''If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price.'' The Exchange proposes to instead provide, ''If zero (0%) is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price.'' The Exchange believes that explaining if no percentage were elected for Surrender (0%) more clearly describes the remainder of the sentence which provides that the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price, in light of the ability to configure the Surrender percentage with this proposal. The Exchange also proposes to remove the sentence that states, ''Surrender will not be applied if both the Initiating Order and PIXL Complex Order are Public Customer orders.'' The Exchange noted in the Customer Cross Orders section that Public Customer to Public Customer Orders currently executed through PIXL would be executed pursuant to proposed Options 3, Section 12, instead of in the PIXL mechanism, as proposed.

The Exchange proposes to amend Options 3, Section 13(b)(1)(C) to add ''price'' as a detail which is specified today for a PIXL Auction Notification or ''PAN.'' Current Options 3, Section 13(b)(1)(C) states, ''When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side, size, and options series of the PIXL Order will be sent over the Exchange's TOPO data feed pursuant to Options 3, Section 23(a)(1) and the Exchange's Specialized Quote Feed pursuant to Options 3, Section 7(a)(i)(B).'' The Exchange is amending the current functionality of PIXL to disseminate ''price'' in addition to side, size, and options series identical to ISE Options 3, Section 13(c). Adding ''price'' to the list of details will provide members with greater transparency and could encourage more competition in PIXL and greater opportunity for potential price improvement in PIXL. The Exchange also amended the name of the TOPO data feed and relocated the Specialized Quote Feed or ''SQF'' protocol in a separate rule change.[146] The TOPO data feed was amended to the Phlx Orders data feed. Additionally, the SQF protocol was relocated to Supplementary Material .03(C) to Options 3, Section 7.

The Exchange proposes to amend Options 3, Section 13(b)(1)(G)(ii) which states, ''The minimum price increment for PAN responses and for an Initiating member's stop price and/or NWT price in the case of a Complex Order shall be $0.01.'' The revised rule will state that the minimum price increments for PAN responses and for an Initiating member's stop price and/or NWT price in the case of a Complex Order shall be entered in the increments provided in Options 3, Section 14(c)(1). The Exchange recently adopted Options 3, Section 14(c)(1) in a separate filing.[147] Proposed Options 3, Section 13(b)(1)(G)(ii) is consistent with ISE Options 3, Section 13(e)(4)(i) which states that Improvement Complex Orders in a Complex PIM Auction must be entered in the increments provided in ISE Options 3, Section 14(c)(1).[148] The Exchange also proposes to add ''Responses that improve the stop price must improve the price by at least $0.01.'' ISE has a similar rule at Options 3, Section 13(e)(4)(i).

Today, Phlx Options 3, Section 13(b)(1)(H) provides that a PAN response size at any given price point may not exceed the size of the PIXL Order. A PAN response with a size greater than the size of the PIXL Order will be immediately cancelled. The Exchange proposes to amend this functionality to align it to ISE Options 3, Section 13(c)(2) which provides that Improvement Orders may be entered by all members in one-cent increments at the same price as the Crossing Transaction or at an improved price for

Professional Complex Order or Improvement Complex Order on the Complex Order Book.

[145] Initiating members may submit a percentage for Surrender into the System, prior to submitting paired orders into PIXL. If the Initiating member submitted a percentage of 40% into the System, the member would receive its full priority and trade allocation provisions that it would be entitled to pursuant to Section 13(b)(5)(B)(i). Of note, if the Initiating member does not select a percentage, the System will populate the field with 40%, the default Surrender percentage.

[146] *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.

[147] *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[148] Options 3, Section 14(c)(1) states that bids and offers for Complex Options Strategies may be expressed in one cent ($0.01) increments, and the options leg of Complex Options Strategies may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order.

the Agency Order, and will only be considered up to the size of the Agency Order. With this proposed change, the System will not cancel a PAN response that exceeds the size of the PIXL Order as it does today, rather, the Exchange will cap the size of the PAN response to the auction size for purposes of the allocation methodology. With this change, better priced interest gets executed in full only if there is sufficient size to execute against such interest and Public Customer interest would continue to execute first in price time priority. This proposed change would continue to ensure a fair and orderly market by maintaining and protecting the priority of Public Customer orders while still affording the opportunity for all market participants to seek liquidity and potential price improvement. The Exchange proposes this amendment to align its functionality across the Nasdaq affiliated markets.

The Exchange proposes to amend Options 3, Section 13(b)(1)(I) to amend the current System behavior with respect to the handling of a PAN response. Today, a PAN response must be equal to or better than the displayed NBBO on both sides of the market at the time of receipt of the PAN response.[149]

Specifically, the Exchange proposes to amend the System behavior to permit a response to these auctions to be entered at a price that is equal to or better than the better of the internal PBBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the PAN response is received. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal PBBO/NBBO while not fully satisfying the Agency Order, thus preventing PAN responses from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the response because only interest on the same side of the response will be eligible to trade with the auctioned order. The proposed amendment is intended to prevent potential auction manipulation, which can occur when an order/quote is entered at a price that improves the price of the Agency Order.

The Exchange proposes to amend the current rule because, in certain cases, the current rule prevents other responses to that auction to be entered at a price that improves the price of the PIXL Agency Order, but is inferior to such other quote/order responses which improved upon the internal PBBO or NBBO. By way of example, during an auction, once an order or quote is received on the opposite side of the PIXL Agency Order which is marketable with the Agency Order, it changes the internal PBBO and potentially the NBBO. If such initial order or quote does not comprise enough size to fully satisfy the PIXL, since it has changed the internal PBBO/NBBO, it now prevents PAN responses which improve the stop price of the auction from being entered at a price that is inferior to the initial order or quote, despite such initial order or quote's inability to satisfy the full volume of the Agency Order at an improved price. By utilizing the better of the internal PBBO or the NBBO at the start of the relevant PIXL auction, the Exchange believes that better priced responses would be permitted to trade with the Crossing Transaction. Today, those better priced responses would be rejected. This proposal would permit a response to these auctions to be entered at a price that is equal to or better than the better of the internal PBBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the Response is received, thereby preventing potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the Crossing Transaction. This amendment would allow other responses to that auction to be entered at a price that improves the price of the Crossing Transaction, but is inferior to such other quote/order responses which improved upon the internal PBBO or NBBO. Utilizing the price of the market at the start of the PIXL auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal PBBO/NBBO while not fully satisfying the Agency Order, thus preventing PAN responses from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the response because only interest on the same side of the response will be eligible to trade with the auctioned order. The proposed amendments would allow Agency Orders to potentially trade at improved prices.

Below are examples of this functionality change.

Example 15

Internal BBO—$1.15 × $1.30
NBBO—$1.10 × $1.35

PIXL Order to sell is entered with Customer on agency side selling 100 contracts with a stop price of $1.18.

Order 1 is entered to Buy 1 @$1.25–accepted based on market at start of auction $1.15 × $1.30.

Auction Response 1 is entered to Buy 100 @$1.20–With entry check modification, accepted based on market at start of auction $1.15 × $1.30.

Under current System entry checks, PIXL Auction Response 1 would be rejected because the System would look at the market of $1.25 × $1.30, and the PIXL Auction would conclude after the timer has run the full 100 milliseconds and partially trade with Order 1 at $1.25 and with a final auction price of $1.18. The remainder of the agency order would trade with the contra-side order at $1.18.

Under new System entry checks, the PIXL Auction would conclude and partially trade with Order 1 at $1.25 and then trade the remainder of the agency order at a price of $1.20 based off of the acceptance of Auction Response 1.

Example 16

Internal BBO–$23.90 × $28.50
NBBO–$23.90 × $28.50 (Singly listed on Phlx)

PIXL Order to sell is entered with Customer on agency side selling 100 contracts with an agency order price of $26.20.

Quote is entered to buy 1 contract @$27.40 (updating NBBO to $27.40 × $28.50)

Auction Response 1 is entered to Buy 100 @$26.72–With entry check modification, accepted based on market at start of auction $23.90 × $28.50.

Under current System entry checks, Auction response 1 would be rejected because the System would look at the market of $27.40 × $28.50, and the PIXL Auction would conclude after the timer has run the full 100 milliseconds and partially trade with quote @$27.40 and with contra at a final auction price of $26.20.

Under new System entry checks, the PIXL Auction would conclude and partially trade with quote @$27.40 and with Auction Response and contra (assuming the contra elected to automatically match the response) at a final auction price of $26.72 based off of the acceptance of Auction Response 1.

To align the treatment of Complex Order PAN responses with the treatment of single-leg PAN responses, the Exchange proposes to delete the sentence which states, ''A Complex Order PAN response must be equal to or better than the cPBBO, as defined in Options 3, Section 14(a) at the time of receipt of the PAN response.''

[149] An identical change was made at ISE Options 3, Section 13(c)(2).

Additionally, the Exchange proposes to delete the current sentence in that same paragraph which states, ''A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected.'' As a result, Complex Order PAN responses will no longer need to be submitted at a price that is equal to or greater than the best net price achievable from the best bids and offers for the individual legs at the time of receipt of the PAN response.'' Like the proposed changes to single-leg PAN responses, the changes to Complex Order PAN responses are designed to prevent an order or quote from potentially manipulating the final auction price by changing the internal best net price achievable from the best bids and offers for the individual legs while not fully satisfying the PIXL Order, thus preventing PAN Responses from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote.

Finally, the Exchange proposes to amend the last sentence of that paragraph to add the phrase ''cancelled at the conclusion of the PIXL Auction'' to the end of the sentence. The Exchange notes that the PAN responses are accepted and then cancelled back at the conclusion of the PIXL Auction. This would be a change from the current behavior where the PAN responses are immediately cancelled.

The Exchange proposes a similar change to Options 3, Section 13(b)(1)(J) to change the word cancelled'' to ''rejected.'' The proposed new sentence would state, ''PAN responses on the same side of the market as the PIXL Order are considered invalid and will be rejected.'' This change is not substantive.

The Exchange proposes to amend Options 3, Section 13(b)(1)(K) to add language regarding PAN responses in a PIXL Auction. Today, multiple PAN responses from the same member may be submitted during the PIXL auction. Multiple PAN responses at a particular price point submitted by a member in response to an exposure period may not exceed, in the aggregate, the size of the PIXL Order. However, a member using the same badge[150]/mnemonic[151] may only submit a single PAN response per auction ID for a given auction. If an additional PAN response is submitted for the same auction ID from the same badge/mnemonic, then that PAN response will automatically replace the previous PAN response. The Exchange proposes to make clear in its rules that it would not allow members to submit multiple PAN responses using the same badge/mnemonic and would also not aggregate all of those PAN responses at the same price. The Exchange proposes to make clear that additional PAN responses from the same badge/mnemonic for the same auction ID will automatically replace the previous PAN responses. This handling of PAN responses is consistent with the current System handling of PAN responses.[152]

With respect to Complex PIXL Auctions, the Exchange proposes to amend its rules to align certain rules for a Complex PIXL Auction to that of ISE Options 3, Section 13(e) and the proposed Complex Order rules that the Exchange adopted in a separate rule change.[153]

Early Termination

Specifically, the Exchange proposes to remove the current early termination provision in Options 3, Section 13(b)(2)(C) that provides, ''any time the cPBBO including Reference BBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order.'' Additionally, the Exchange proposes to add the following conditions in proposed Options 3, Section 13(b)(2)(C), (D) and (E) which are based on the early termination provisions in ISE Options 3, Section 13(b)(4)(iv)(B), (C) and (D): (1) upon receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs; (2) upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the Complex PIXL Order that would cause the execution of the Complex PIXL Order to be at or outside of the best bid or offer on the Complex Order Book; and (3) when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order Book or bids and offers for the individual legs. The Exchange currently early terminates a Complex PIXL Auction when there is trading halt in the affected series and will continue to early terminate such auctions.

Today, Options 3, Section 13(b)(2), Conclusion of Auction, provides the circumstances in which a PIXL Auction would conclude. The provisions currently include (1) end of Auction period, (2) any time the BBO crossed the PIXL Order stop price on the same side of the market as the PIXL Order; (3) for a Complex PIXL Order, any time the cPBBO including Reference BBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order; and (4) any time there is a trading halt on the Exchange in the affected series.

At this time, the Exchange is proposing to add additional scenarios that would cause the early termination of a Complex Order PIXL Auction so that Phlx Options 3, Section 13(b)(2) will be aligned with ISE Options 3, Section 13(e)(4)(iv) as explained above.[154] While the rule text is substantially similar to ISE Options 3, Section 13(e)(4)(iv), the Exchange is adding rule text at proposed Phlx Options 3, Section 13(b)(2)(C)(ii) which is not contained in ISE Options 3, Section 13(e)(4)(iv). Also, the Exchange notes that the rule text at proposed Phlx Options 3, Section 13(b)(2)(C)(i) is substantially similar to ISE Options 3, Section 13(e)(5)(iv). Additionally, the Exchange proposes to change the term ''Reference BBO'' in Options 3, Section 13(a)(2)(B) and Options 3, Section 13(b)(6) to ''internal PBBO'' to align to the rule text utilized in Options 3, Section 5(d).

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[150] A ''badge'' means an account number, which may contain letters and/or numbers, assigned to Lead Market Makers and Market Makers. A Lead Market Maker or Market Maker account may be associated with multiple badges. *See* Options 1, Section 1(b)(6).

[151] A ''mnemonic'' means an acronym comprised of letters and/or numbers assigned to members. A member account may be associated with multiple mnemonics. *See* Options 1, Section 1(b)(29).

[152] An identical change was made in ISE Options 3, Section 13(c)(2). *See* Securities Exchange Act Release No. 102424 (February 13, 2025), 90 FR 10024 (February 20, 2025) (SR–ISE–2025–07) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Various Options Rules). The change is effective but not yet operative.

[153] Phlx adopted Complex Order rules in Options 3, Section 14 that are identical to ISE Options 3, Section 14 rules. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[154] ISE Options 3, Section 13(e)(4)(iv) states, the exposure period will automatically terminate (A) at the end of the time period designated by the Exchange pursuant to subparagraph (4)(i) above, (B) upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs, (C) upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the Agency Complex Order that would cause the execution of the Agency Complex Order to be outside of the best bid or offer on the Complex Order Book; (D) when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order Book or bids and offers for the individual legs; or (E) if a trading halt is initiated after the order is entered into the Complex Price Improvement Mechanism, such auction will be automatically terminated without an execution.

Currently, Options 3, Section 13(b)(2)(C) provides, ''For a Complex Order PIXL Auction, any time the cPBBO including Reference BBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order (defined for these purposes as a ''Complex PIXL Order'' or, as the context requires, a ''PIXL Order'').'' The Exchange proposes to remove this rule text and make it identical to ISE rule text as described below.

First, the Exchange proposes to replace this rule text with rule text identical to ISE Options 3, Section 13(e)(5)(iv). The Exchange proposes to state at Options 3, Section 13(b)(2)(C)(i),

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

Example 17

- Leg A quote is $4.20 × $4.50
- Leg B quote is $4.00 × $4.10
- Complex BBO for Strategy A–B is $0.10 × $0.50
- Order 1 is a Complex Order to buy 1 A–B @$0.08
- Order 2 is a Complex PIXL Order to buy 50 A–B @$0.15

During the Complex PIXL Auction, Order3 is a Complex Order entered to sell 50 A–B @$0.08. This Order3 is marketable with a Complex Order resting on Complex Order Book (Order1). Order3 causes the Complex PIXL Auction to early terminate.

In this case, the Complex PIXL Order will trade with the Order3 Complex Order that was submitted mid-auction. The execution price will be the mid-point of $0.10 (net price best bid from single-leg quotes) and $0.15 (best counter-side interest from Initiating Order) that is rounded to benefit of Complex PIXL Order = 0.12 (Leg A @4.21 and Leg B @4.09).

Further, the Exchange proposes to state at Options 3, Section 13(b)(2)(C)(ii),

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

The Exchange notes that the execution prices of the Complex PIXL Order are not impacted when a marketable Complex Order on the same side of the Complex PIXL Order ends the exposure period because the marketable Complex Order would not trade with the Agency Order because it is on the same side.

Second, the Exchange proposes to provide at Options 3, Section 13(b)(2)(D), that a Complex PIXL Auction will terminate early upon the receipt of a non-marketable Complex PIXL Order in the same complex strategy on the same side of the market as the Complex PIXL Order that would cause the execution of the Complex PIXL Order to be at or outside of the best bid or offer on the Complex Order Book. This provision is identical to ISE Options 3, Section 13(e)(4)(iv)(C), except for the addition of ''at or'' in Section 13(b)(2)(C)(2) which is not contained in ISE Options 3, Section 13(e)(4)(iv)(C). Specifically, the addition of ''at or'' to the early termination provision will allow the Complex PIXL Order to execute by early terminating the auction upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the PIXL Complex Order that would cause the execution of the Complex PIXL Order to be at or outside of the best bid or offer on the Complex Order Book. Without this change, the Complex PIXL Order would not be able to execute at the conclusion of the PIXL Auction. This change aligns with the Exchange's proposal at Options 3, Section 13(b)(8) that requires Complex PIXL Orders to trade in at least one minimum price variation (as provided in Options 3, Section 14(c)(1)) better than the price of a Complex Order on the Complex Order Book on the same side of the market.

Third, the Exchange proposes to provide at Options 3, Section 13(b)(2)(e), that for a Complex Order PIXL Auction will terminate early when a resting Complex Order in the same complex strategy on either side of the market becomes marketable against the Complex Order Book or bids and offers for the individual legs. This provision is identical to ISE Options 3, Section 13(e)(4)(iv)(D).

Fourth, the Exchange proposes to re-letter current Options 3, Section 13(b)(2)(D), related to a trading halt, from ''D'' to new ''F'' which provision is substantially similar to ISE Options 3, Section 13(e)(4)(iv)(E). Further, the Exchange proposes to amend rule text in Phlx Options 3, Section 13(b)(3) to provide, in the case of a trading halt on the Exchange in the affected series, the entire PIXL Order would be executed at the stop price solely against the Initiating Order. This rule text is substantially similar to ISE Options 3, Section 13(d)(5). Any unexecuted PAN responses will be cancelled. If a trading halt is initiated after the order is entered into the Complex PIXL, such auction will be automatically terminated without an execution. This rule text is substantially similar to ISE Options 3, Section 13(e)(4)(iv)(E).[155] As amended Options 3, Section 13(b)(2) would state, ''Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (A) through (F) below, with the PIXL Order executing pursuant to paragraph (2)(A) through (D) below.''

With these proposed amendments, a Complex PIXL would be subject to early termination upon the receipt of a Complex Order or quote 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 or 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 being auctioned to be outside of the best bid or offer for the same complex strategy on the Complex Order book. This text is identical to ISE Options 3, Section 13(e)(4)(iv)(A).[156] The Exchange proposes to add the ability to early terminate a Complex PIXL upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs because without early terminating the auction the marketable Complex Order would not be able to trade until the end of the Complex PIXL Auction. Eligible interest remaining on the Complex Order Book after any auction trades, may trade with subsequent auctions, including any Complex Order auction, as those are processed.

The Exchange proposes to remove the remainder of the current rule text in Phlx Options 3, Section 13(b)(3) which states,

If the situations described in sub-paragraphs (2)(B), (C), or (D) above occur, the entire PIXL Order will be executed at: (A) in the case of the Reference BBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than

[155] ISE Options 3, Section 13(e)(4)(iv)(E) states that the exposure period will automatically terminate. . . . (E) if a trading halt is initiated after the order is entered into the Complex Price Improvement Mechanism, such auction will be automatically terminated without an execution.

[156] ISE Options 3, Section 13(e)(4)(iv)(A) states that the exposure period will automatically terminate. . . (B) upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs. . .''.

the price of a Limit Order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response, but at a price that is at least $0.01 better than the price of such Limit Order at the time of the conclusion of the Auction; (B) in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side of the market as the Complex PIXL Order, the stop price against executable PAN responses and executable Complex Orders using the allocation algorithm in subparagraph (5)(B)(iv)(a) through d); or (C). . .

The Exchange notes that the rule text currently at Options 3, Section 13(b)(3)(A) is not necessary as current Options 3, Section 13(b)(7) provides that if the execution PIXL Auction price (except if it is a Complex Order) would be the same or better than an order on the Limit Order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least $0.01 better than the resting order's limit price pursuant to Options 3, Section 13(b)(7). If such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. The Exchange notes that this language would continue to apply to an early termination for a PIXL Auction (except if it is a Complex Order), any time the internal PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order. The Exchange is amending Phlx's functionality such that the execution described in current Options 3, Section 13(b)(3)(B) will not execute in this manner because the Exchange is removing the early termination provision in current Options 3, Section 13(b)(2)(C) which describes the cPBBO including Reference BBO or the Complex Order book crossing the PIXL Order stop price on the same side of the market as the PIXL Order. As noted above, the proposed new rule text in Options 3, Section 13(b)(3) explains how a PIXL Order would execute in the case of a trading halt which applies to current Options 3, Section 13(b)(2)(D). Today, the Exchange early terminates a PIXL Auction in the affected series when there is a trading halt. The Exchange will continue to early terminate a PIXL Auction in the affected series for a trading halt.

The Exchange proposes to remove the second sentence from current Options 3, Section 13(b)(4) which states, ''In the case of a Complex PIXL Auction, an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order as well as interest for the individual components of the Complex Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction.'' The Exchange has amended the early termination provisions to permit a resting Complex Order in the same complex strategy on either side of the market that becomes marketable against the Complex Order Book or bids and offers for the individual legs to early terminate a PIXL Auction. Therefore, this sentence is being removed for consistency.

The Exchange proposes to amend the System allocation to the Initiating member after Public Customer orders have been allocated in Options 3, Section 13(b)(5)(A) by adding additional language explaining how the System would handle bids and offers for the individual legs of a Complex Order. Identical to ISE Options 3, Section 13(e)(5)(v), with respect to bids and offers for the individual legs of a Complex Order entered into the Complex PIXL, the priority rules applicable to the execution of Complex Orders contained in Options 3, Section 14(c)(2) [157] will continue to be applicable and may prevent the execution of a Complex Order entered into the Complex PIXL, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, PAN Responses and, for Complex Options Orders, the Phlx best bids and offers on the individual legs, the Complex PIXL Order will be executed against such interest. The Exchange believes that this additional rule text will provide clarity to the priority checks that are applicable to Complex Orders, whether on the Complex Order Book or in Complex Order auctions. The Exchange noted similar checks in proposed Options 3, Section 11(c)(7)(D) and proposed Options 3, Section 11(e)(4).

Order Allocation

The Exchange proposes to amend Options 3, Section 13(b)(5)(B) to provide that for Complex PIXL Orders, the priority rules applicable to the execution of Complex Orders contained in Options 3, Section 14(c)(2) [158] would apply to the individual legs of a Complex Order entered into the Complex PIXL and may prevent the execution of a Complex Order entered into the Complex PIXL. Phlx Options 3, Section 13(e)(5)(B) further provides that if an improved net price for the Complex Order being executed can be achieved from Complex Orders, PAN responses and, for Complex Options Orders, the Phlx best bids and offers on the individual legs, the PIXL Complex Order will be executed, against such interest. The Exchange also proposes to amend Options 3, 13(b)(5)(B)(i) to (vi) to provide that: (1) the Surrender provision may be at a percentage from 0% to 40% of the initial size of the PIXL Order (2) provide the allocation methodology that would be applicable to other quotes, orders and PAN responses at the final price point; (3) amend the rounding from ''down'' to ''up''; (4) provide the execution price to be within a certain price from the current market pursuant to Options 3, Section 16(a),[159] as determined by the Exchange for Complex PIXL Orders with stock/ETF components; and (5) provide the manner in which a PAN response or an unrelated limit complex order on the complex order book includes a short sale order in the underlying covered security will be executed by NES.

The Exchange proposes to amend the System allocation to the Initiating member after Public Customer orders have been allocated in Options 3, Section 13(b)(5)(B)(i). This rule text currently states, ''If the Initiating member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating member at the stop price.'' The Exchange instead proposes to state, ''If the Initiating member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% (or such lower percentage requested by the Initiating member) of the initial size of the PIXL Order after Public Customer interest is satisfied being allocated to the Initiating member at the stop price.''

[157] *See supra* note 31.

[158] *See supra* note 31.

[159] SR–Phlx–2025–17 proposed a new Options 3, Section 16(a)(1) that provides that 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 of the complex strategy multiplied by the minimum increment applicable to that leg pursuant to Options 3, Section 14(c)(1). *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this rule change as they are both part of the same technology migration.

If the member requests a lower allocation percentage, the contra-side order would receive an allocation consistent with the percentage requested by the member. Regardless of the member's request, the contra-side order would still be responsible for executing up to the full size of the agency order if there is not enough interest to execute the agency order at a particular price. ISE has identical language at Options 3, Section 13(d)(3) and ISE has similar language for Complex Orders at Options 3, Section 13(e)(5)(iii). The Exchange also proposes to amend the foregoing sentence to base the 40% or lower percentage on the initial size of the PIXL Order after Public Customer interest is satisfied, instead of the remaining contracts. The caveat in the second sentence also accounts for Surrender. Further, the Exchange proposes to state, ''However, if only one other participant matches the stop price, then the Initiating member may be allocated up to 50% of the contracts executed at such price, provided the Initiating member had not designated a percentage designation of ''Surrender'' when initiating the Auction.'' Identical to other changes made in this proposal, the remaining contracts shall be allocated according to the allocation methodology in Options 3, Section 10(a)(1)(E) and (F) [160] so that it is identical to the allocation methodology in other Phlx auctions. The Exchange also proposes identical changes to Options 3, Section 13(b)(5)(B)(ii), 13(b)(5)(B)(iii)(a) and (b), 13(b)(5)(B)(iv), and 13(b)(5)(B)(v)(b). The Exchange also proposes to add a cross cite in Options 3, Section 13(b)(5)(B)(iii) to Options 3, Section 13(b)(1)(B)(ii)(A) to note where the ''stop and NWT'' option is described. The proposed changes do not impact the manner in which the Exchange allocates pursuant to size pro-rata and auto-match.

Example 18

The NBBO and Phlx BBO are both 1 x 1.50
PIXL to buy 1000 is submitted with an Initiating Order to stop the PIXL Order at 1.20
PIXL begins. During the PIXL Auction:
Public Customer PAN arrives to sell 600 @ 1.20
Firm 1 PAN to sell 1000 @1.20 arrives
Firm 2 PAN to sell 1000 @1.20 arrives

Current rule: Public Customer allocated 600 @1.20, contra-side allocated 160 @1.20, Firm 1 and 2 each allocated 170 @1.20 (in this case contra-side allocated 40% of 400 contracts which remained after Public Customer allocation of 600 contracts, for a remainder of 160 contracts)

Proposed rule: Public Customer allocated 600 @1.20 and contra-side allocated 400 @ 1.20 (in this case contra-side allocated 40% of 1000 contracts (initial size of the Initiating Order) which is 400 contracts)

Example 19

Additional example to illustrate ''initial size'' allocation with auto-match to NWT utilizing size pro-rata allocation
The NBBO and PBBO are both 1 x 1.50
PIXL to buy 1000 is submitted with an Initiating Order to stop the PIXL Order at 1.20, and the Initiating Order auto-match to NWT price of 1.19 and a 40% allocation was elected
PIXL begins. During the PIXL Auction:
Public Customer PAN arrives to sell 200 @ 1.19
Firm 1 PAN to sell 1000 @1.20 arrives
Firm 2 PAN to sell 1000 @1.20 arrives

Current rule: Public Customer allocated 200 @1.19, contra-side allocated 200 @1.19, contra-side allocated 240 @1.20 (40% of remaining 600), Firm 1 allocated 180 @1.20, Firm 2 allocated 180 @1.20

Proposed rule: Public Customer allocated 200 @1.19, contra-side allocated 200 @1.19, contra-side allocated 400 @1.20 (40% of initial 1000), Firm 1 allocated 100 @1.20, Firm 2 allocated 100 @1.20.

Finally, the Exchange proposes to amend Options 3, Section 13(b)(5)(B)(i) to change the reference to Options 3, Section 10(a)(1)(G) to Options 3, Section 10(a)(1)(E) and (F).[161] The Exchange filed a separate rule change that amended Options 3, Section 10 and as a result the citation is being updated to reflect the amended rule text.[162] Identical changes are proposed to Options 3, Section 13(b)(5)(B)(iii)(a) and (b) where the Exchange proposes to amend a citation to Options 3, Section 10(a)(1)(A) and (E)–(G) to ''(E)–(F).''

The Exchange proposes to amend Phlx Options 3, Section 13 universally to replace the term ''cPBBO'' with ''best net price achievable from the best bids and offers for the individual legs.'' The proposed new language is identical with terminology utilized in ISE Options 3, Section 13. The Exchange also proposes to replace the word ''pro-rata basis'' in Options 3, Section 13(b)(5)(B)(iv) with the term ''size pro-rata basis'' which aligns usage of that term in Options 3, Section 10. The Exchange is removing the rule text that explains size pro-rata because size pro-rata allocation is explained in Options 3, Section 10 which is referred to in the rule text. The Exchange proposes to remove references to ''SQT, RSQT and Floor Market Maker'' in two places. Instead, the Exchange proposes to solely reference a Market Maker. Options 1, Section 1(b)(2) defines a Market Maker to be an SQT or RSQT.[163] The Exchange is also specifically referencing the non-Public Customer response allocation model in this paragraph.

The Exchange proposes to amend rounding in Options 3, Section 13(b)(5)(B)(vi) from down to up and remove the following rule text,

> If rounding would result in an allocation of less than one contract, then one contract will be allocated to the Initiating member only if the Initiating member did not otherwise receive an allocation. If there are contracts remaining, such contracts shall be allocated for simple interest after rounding by randomly assigning all Market Makers an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the Market Maker is at the best price at which the order, quote or sweep is being traded, except with respect to Complex Orders, which allocation is described in Options 3, Section 14. In the event that there are remaining contracts to be allocated for interest after rounding, such remaining contacts will be allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. Remaining shares will be allocated in time priority for Complex Orders.

Today, Phlx PIXL rounds down to the nearest integer when it allocates. The Exchange is amending the rounding methodology to round up to the nearest integer. Options 3, Section 10 was amended in a separate rule change to reflect rounding up on Phlx.[164] As a result of changing the rounding methodology, residual odd lots will no longer exist. If the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because Phlx would round up, the provisions which describe allocations for remainders of less than one contract cannot occur and, therefore, this rule text is being removed because such remainders would not be possible. The Exchange proposes to provide market participants with transparency as to the number of contracts that they are entitled to receive as the result of rounding. Further, the Exchange believes that this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. Additionally, the Exchange proposes to eliminate the references to Odd Lot Allocation in this

[160] *See supra* note 3.

[161] *See supra* note 3.

[162] *See supra* note 3.

[163] *See* Options 1, Section 1(b)(2), ''A ''Market Maker'' means a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.''

[164] *See supra* note 3.

paragraph. The Exchange previously eliminated the Odd Lot Allocation at Phlx Options 3, Section 10(a)(1)(F) in a separate rule change [165] because Phlx will round up with this technology migration throughout its rules. As a result, there would be no remaining contracts to be allocated after rounding. There is no net benefit or negative to electing to round up versus utilizing any other method of rounding (down, banker's rounding, etc.) provided the rounding is handling uniformly and applied in the same manner to each trade executed by the System. The Exchange will uniformly apply its proposed rounding methodology, rounding up, to all transactions executed on Phlx.

Finally, the Exchange proposes that after Public Customer interest on the Complex Order Book and PAN responses at a given net price, non-Public Customer interest on the Complex Order Book and PAN responses will participate in the execution of the Complex PIXL Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest pursuant to Options 3, Section 10(a)(1)(E) and (F).[166] This allocation methodology is the same allocation methodology utilized for order book allocation at Options 3, Section 10. Phlx will utilize its allocation methodology whereas ISE's PIM utilizes ISE's allocation methodology in ISE Options 3, Section 13(e)(5). Phlx's allocation methodology differs from ISE's allocation methodology in that Phlx allocates first to Public Customers and then Market Makers ahead of all other non-Public Customer interest whereas ISE does not have a separate market maker allocation. This is consistent with the Exchange's single-leg allocation methodology in its PIXL auction. Phlx believes it is consistent with the Act to retain its allocation model which is consistent with the Act as it maintains the priority of orders and protects Public Customer orders by allocating them prior to other interest.

The Exchange proposes to amend Options 3, Section 13(b)(7) to relocate the word ''execution'' so that the sentence is easier to understand. The proposed new sentence would provide, ''If the PIXL Auction price (except if it is a Complex Order) would be the same or better than an order on the Limit Order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least $0.01 better than the resting order's limit price.''

The Exchange proposes to amend Options 3, Section 13(b)(8) which currently provides,

> If the execution Complex Order PIXL Auction price would be the same or better than a Complex Order on the Complex Order Book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least $0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

The Exchange proposes to amend Options 3, Section 13(b)(8) to instead provide that, ''If the execution Complex Order PIXL Auction price would be the same or better than a Complex Order on the Complex Order Book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is *at least one minimum price variation (as provided in Options 3, Section 14(c)(1))* better than the resting order's limit price.'' Options 3, Section 14(c)(1) provides: that bids and offers for Complex Options Strategies may be expressed in one cent ($0.01) increments, and the options leg of Complex Options Strategies may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent ($0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. The Exchange believes that this amendment will prevent the Complex PIXL order from executing at a price where there is a resting Complex Order on the same side of the market while still allowing the Complex PIXL order to execute and receive price improvement.

The Exchange proposes to amend Options 3, Section 13(b)(10)(ii) which describes Complex PIXL Orders with stock/ETF components as explained above for the Facilitation Mechanism and SOM. Today, where one component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIXL Order (together with the Initiating Order, Complex Order, or PAN response, as applicable) to 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 Exchange recently adopted Options 3, Section 16 in a separate rule change.[167] The Exchange proposes to add a new sentence to Options 3, Section 13(b)(10)(ii) that provides that the execution price must be within a certain price from the current market pursuant to Options 3, Section 16(a),[168] as determined by the Exchange. If the stock price is not within these parameters, the Complex PIXL Order and/or PAN response is not executable and would be cancelled. As noted above, the Complex PIXL Orders would be subject to the same rules that govern other Complex Orders.

The Exchange also proposes to add language to Options 3, Section 13(b)(10)(iii), similar to language added to the Facilitation and Solicitation auctions as noted in this proposal, to describe the manner in which the System will execute a PAN response or an unrelated limit complex order on the complex order book that includes a short sale order in the underlying covered security. Today, Phlx's rule provides that if NES cannot execute the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order, Initiating Order, Complex Order, and/or PAN response to the entering member.

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[165] *Id.*

[166] *See supra* note 3.

[167] *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.

[168] Options 3, Section 16(b) provides for certain Strategy Price Protections that prevent certain Complex Order Strategies from trading at prices outside of pre-set standard limits. SPP applies to Vertical Spreads as defined in Options 3, Section 16(b)(1), Calendar Spreads as defined in Options 3, Section 16(b)(2), as well as Butterfly Spreads and Box Spreads as defined at Options 3, Section 16(b)(3) and (4), respectively. SR–Phlx–2025–17 amended Options 3, Section 16 and with this amendment the Vertical Spread will be located in Options 3, Section 16(b)(1) and the Time Spread will be located in Options 3, Section 16 *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this rule change as they are both part of the same technology migration.

For purposes of this paragraph, the term ''covered security'' shall have the same meaning as in Rule 201(a)(1) of Regulation SHO. In order to align Phlx's System functionality with that of ISE at Supplementary Material .09 to Options 3, Section 13, the Exchange proposes to state at Options 3, Section 13(b)(10)(iii) that,

> [w]hen a PAN response or an unrelated limit complex order on the complex order book includes a short sale order in the underlying covered security, NES will execute such order at (1) its stated limit price if the Initiating Order does not include a short sale order in the underlying security; or (2) its stated limit price or better if the Initiating Order includes a short sale order in the underlying covered security. If NES cannot execute the underlying covered security component of a Complex PIXL Order and/or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order and/or PAN response to the entering member. For purposes of this paragraph, the term ''covered security'' shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.[169]

By using the order's stated limit price in this case, the Exchange would allow the responder with a short sale order to participate in the relevant auction and allocate the best price possible to the Agency Order while complying with the short sale price test.[170] The Exchange believes that including PAN responses with a short sale order in the underlying covered security may create additional competition in the Complex PIXL auction while also providing additional opportunity for potential price improvement for the Agency Order.

Corresponding Changes to Options Rules

The Exchange proposes adopting a new Supplementary Material .02(d)(4) to Options 3, Section 7 that is identical to ISE Supplementary Material .02(d)(4) to Options 3, Section 7. Specifically proposed Supplementary Material .02(d)(4) to Options 3, Section 7 would state,

> Block Orders, Facilitation Orders, Complex Facilitation Orders, SOM Orders, Complex SOM Orders, PIXL Orders, Complex PIXL Orders, QCC Orders, QCC Complex Orders, Customer Cross Orders, and Customer Cross Complex Orders are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

The Exchange proposes to make clear that these order types are Immediate-or-Cancel Orders.

Options 3, Section 22

The Exchange is amending certain rule text in Phlx Options 3, Section 22, Limitations on Order Entry, to make that rule text identical to ISE Options 3, Section 22.

Generally, the Exchange proposes to amend Options 3, Section 22 to change any references to ''member'' to ''member organization.''[171] ISE utilizes the term ''Electronic Access Member''[172] which is the equivalent of Phlx's term ''member organization.'' Also, the Exchange also proposes to capitalize the defined term ''market maker.''[173]

The Exchange proposes to amend Options 3, Section 22(b), Limitations on Principal Transactions to account for the new auction mechanisms that are exceptions to the order exposure requirements in this rule. The Exchange proposes to revise Options 3, Section 22(b)to state, ''Member organizations may not execute as principal against orders on the Limit Order book they represent as agent unless:. . . (iii) the member organization utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(b) and (c).'' Further the Exchange proposes to also amend Options 3, Section 22(b) to state,

> Member organizations may not execute as principal against orders on the Limit Order book they represent as agent unless . . . (iv) the member organization utilizes the PIXL pursuant to Options 3, Section 13; (v) the member organization utilizes Qualified Contingent Cross Orders pursuant to Options 3, Section 12(c) and (d); (vi) the member organization utilizes a Customer Cross Order pursuant to Options 3, Sections 12(a) or (b); or (vii) the member organization utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14.[174]

Finally, the Exchange proposes to add a final sentence to Options 3, Section 22(b) that states, as noted in the description of the Solicited Order Mechanism, ''Member organizations may not execute as principal orders they represent as agent within the Solicitation Mechanism pursuant to Options 3, Section 11(d) and (e).'' The Exchange proposes to add this sentence to the end of Options 3, Section 22(b) to make clear that this restriction exists for the Solicited Order Mechanism. The proposed rule text in Options 3, Section 22(b) is identical to ISE Options 3, Section 22(b).

The Exchange proposes to amend Options 3, Section 22(b)(1) to amend the term ''member'' to instead state ''member organization'' which conforms the definition to the remainder of Options 3, Section 22. Further, as noted above in the Customer Cross Orders description, the Exchange relocated rule text from Options 3, Section 13(f) to the end of Options 3, Section 22(b)(1).

These limitations were also proposed at Options 3, Section 22(c) with respect to Solicitation Orders. The Exchange revised Options 3, Section 22(c) to note,

> Member organizations may not execute orders they represent as agent on the Exchange against orders solicited from member organizations and non-member organization broker-dealers to transact with such orders unless . . . (ii) the member organization utilizes the Solicited Order Mechanism pursuant to Options 3, Section 11(e), (iii) the member organization utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(d); (iv) the member organization utilizes PIXL pursuant to Options 3, Section 13; (v) the member organization utilizes Qualified Contingent Cross Orders pursuant to Options 3, Section 12(c) and (d); (vi) the member organization utilizes a Customer Cross Order pursuant to Options 3, Sections 12(a) or (b); or (vii) the

[169] *See supra* Examples 10–19 which apply equally to PIXL functionality.

[170] For example, utilizing a Complex Facilitation auction with a BBO of 0.05 × 0.10 and an NBBO for the underlying security component of 1.05 × 1.10, if the Initiating Order submitted an agency order to buy @1.13 and a contra-order to sell @1.13, with auto-match at any price point, and Responder1 was long @1.10, and Responder2 was short @1.10 (in this scenario 1.10 would not comply with the short sale price test), pursuant to the proposed amendment, the agency order would receive a price improvement allocation @1.10. In this scenario the improved price of 1.11 would not be allocated to the responder with a short sale rather the price improvement would be applied to the agency order. The Exchange believes it is important to offer price improvement to the agency order over the responder to the auction. Of note, the responder that was short @1.10 would be cancelled.

[171] The term ''member organization'' means a corporation, partnership (general or limited), limited liability partnership, limited liability company, business trust or similar organization, transacting business as a broker or a dealer in securities and which has the status of a member organization by virtue of (i) admission to membership given to it by the Membership Department pursuant to the provisions of General 3, Sections 5 and 10 or the By-Laws or (ii) the transitional rules adopted by the Exchange pursuant to Section 6–4 of the By-Laws. References herein to officer or partner, when used in the context of a member organization, shall include any person holding a similar position in any organization other than a corporation or partnership that has the status of a member organization. *See* General 1, Section 1(a)(17).

[172] The term ''Electronic Access Member'' or ''EAM'' means a Member that is approved to exercise trading privileges associated with EAM Rights. *See* General 1, Section 1(a)(6).

[173] A ''Market Maker'' means a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System. *See* Options 1, Section 1(b)(28).

[174] SR–Phlx–2025–17 proposed Complex Order Exposure at proposed Supplementary Material .01 to Options 3, Section 14. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

member organization utilizes a Complex Order Exposure pursuant to Supplementary Material .01 to Options 3, Section 14.

This rule text is identical to ISE Options 3, Section 22(c).

The Exchange proposes to add a new Supplementary Material .01 to Options 3, Section 22 which provides,

Options 3, Section 22(b) prevents member organizations from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an member organization to establish a relationship with a customer or other person (including affiliates) to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of Options 3, Section 22(b) for a member organization to be a party to any arrangement designed to circumvent Options 3, Section 22(d) by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member organization immediately upon their entry into the System.

This proposed rule text is identical to ISE Supplementary Material .01 to Options 3, Section 22. This proposed rule text prohibits member organizations from executing agency orders to increase its economic gain from trading against the order if they do not first expose the order. The Exchange makes clear that it is a violation of Options 3, Section 22(b) for a member organization to be a party to any arrangement designed to circumvent the information barriers in Options 3, Section 22(d) [175] by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member organization immediately upon their entry into the System.

The Exchange proposes to add a new Supplementary Material .02 to Options 3, Section 22 [176] concerning Reserve Orders which provides that with respect to the non-displayed reserve portion of a Reserve Order, the exposure requirement of paragraphs Options 3, Section 22(b) and (c) are satisfied if the displayable portion of the Reserve Order is displayed at its displayable price for one second. The rule text at Supplementary Material .02 to Options 3, Section 22 is identical to ISE Supplementary Material .02 to Options 3, Section 22.

The Exchange also proposes to add a new Supplementary Material .03 to Options 3, Section 22 which provides,

The exposure requirement of paragraph (b) applies to the entry of orders with knowledge that there is a pre-existing unexecuted agency, proprietary, or solicited order on the Exchange. Member organizations may demonstrate that orders were entered without knowledge by providing evidence that effective information barriers between the persons, business units and/or systems entering the orders onto the Exchange were in existence at the time the orders were entered. Such information barriers must be fully documented and provided to the Exchange upon request.

This proposed rule text at proposed Supplementary Material .03 to Options 3, Section 22 is identical to ISE Supplementary Material .03 to Options 3, Section 22. The proposed rule text expands on the exposure obligations for limitations on principal transactions and informs member organizations about the necessary information barriers that should exist to prevent leakage of information about certain orders.

Other Rule Changes

The Exchange proposes to amend Options 3, Section 7(g) that describes a Reserve Order.[177] At this time, the Exchange proposes to state that ‘‘Market Makers may not enter a Reserve Order pursuant to Options 2, Section 6.’’ The Exchange previously amended Options 2, Section 6, to restrict a Market Maker to enter a Reserve Order in SR–Phlx–2024–71.[178] By also stating in Options 3, Section 7(g) that Market Makers may not enter Reserve Orders, the Exchange would bring additional transparency to the restrictions regarding Market Makers. ISE has an identical sentence in Options 3, Section 7(g). Additionally, the Exchange's proposal to add the following sentence to new Supplementary Material .02 to Options 3, Section 22 with respect to Reserve Orders, ‘‘With respect to the non-displayed reserve portion of a Reserve Order, the exposure requirement of paragraphs (b) and (c) are satisfied if the displayable portion of the Reserve Order is displayed at its displayable price for one second’’ is consistent with the Act because the sentence will describe the exposure requirements of a Reserve Order given it has both displayed and non-displayed interest. This proposed sentence is identical to ISE Supplementary Material .02 to Options 3, Section 22.

The Exchange proposes to amend Supplementary Material .03 to Options 3, Section 7, regarding the SQF Protocol,[179] to note that an Immediate-or-Cancel or ‘‘IOC’’ Order entered by a Market Maker through SQF will not be subject to the Complex Order Price Protection. The Exchange recently added the same language to Supplementary Material .02(d) to Options 3, Section 7 in describing an IOC Order.[180] The Exchange proposes to add the same language to Supplementary Material .03 to Options 3, Section 7 for greater transparency. ISE Supplementary Material .03 to Options 3, Section 7 has identical rule text.

The Exchange proposes to amend rule text in the Acceptable Trade Range at Options 3, Section 15(b)(1)(B) so that

[175] Phlx Options 3, Section 22(d) states that prior to or after submitting an order to Phlx, a member cannot inform another member or any other third party of any of the terms of the order for purposes of violating Options 3, Section 22.

[176] Proposed Supplementary Material .02 to Options 3, Section 22 provides that with respect to the non-displayed reserve portion of a Reserve Order, the exposure requirement of paragraphs (b) and (c) are satisfied if the displayable portion of the Reserve Order is displayed at its displayable price for one second.

[177] The Exchange added Reserve Order to the list of order types 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.

[178] *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.

[179] ‘‘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* Supplementary Material .03(B) to Options 3, Section 7.

[180] Supplementary Material .02(d) to Options 3, Section 7 was amended in SR–Phlx–2024–71. *See* Options 3, Section 23(a)(2). SR–Phlx–2204–71 renamed the PHLX Orders Feed to the Nasdaq Phlx Order Feed. *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.

the rule text is identical to ISE Options 3, Section 15(a)(2)(A)(iii). The proposed amendments are not substantive, rather they are intended to bring additional clarity to the rule text.

The Exchange proposes clarifying a member's ability to have interest returned if their quote or order would post at the outer limit of the Acceptable Trade Range. The current sentence provides, ''If the order/quote remains unexecuted after the Posting Period, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member has requested that their quotes or orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the quote/order will be returned).'' The revised sentence would provide, ''If the order/quote remains unexecuted after the Posting Period, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their quotes or orders be returned if the quotes or orders would post at the outer limit of the Acceptable Trade Range (in which case, the quotes/orders will be returned).'' The revised language is intended to clarify that the interest posting at the outer limit of the Acceptable Trade Range would trigger the return of that interest.

The Exchange proposes to amend Options 5, Section 4 regarding a FIND Order. The Exchange previously amended [181] Options 5, Section 4(a)(iii)(B)(5) which currently provides,

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

At the time, the Exchange inadvertently failed to remove the following sentence, ''If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price.'' The Exchange noted in SR–Phlx–2024–71 that it proposed to amend to amend Phlx Options 5, Section 4(a)(iii)(B)(5) to remove sentences that were relocated to Phlx Options 5, Section 4(a)(iii)(B)(2) as noted above.[182] The Exchange should have removed the aforementioned sentence which is covered by Phlx Options 5, Section 4(a)(iii)(B)(2) and does appear in ISE Options 5, Section 4(a)(iii)(B)(5). The Exchange notes in SR–Phlx–2024–71 that it was harmonizing Options 5, Section 4 to ISE Options 5, Section 4. The Exchange notes that Phlx Options 5, Section 4(a)(iii)(B)(2) states,

If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price, unless the ABBO is improved to a price which crosses the FIND Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

At this time, the Exchange proposes to remove the aforementioned sentence in Phlx Options 5, Section 4(a)(iii)(B)(5) that was inadvertently not removed in SR–Phlx–2024–71 as the sentence is represented in Phlx Options 5, Section 4(a)(iii)(B)(2). The removal of this sentence will make Phlx Options 5, Section 4(a)(iii)(B)(5) identical to ISE Options 5, Section 4(a)(iii)(B)(5) as intended by SR–Phlx–2024–71. The Exchange also proposes a technical amendment to remove a stray word, ''including,'' at the end of Options 5, Section 4(a)(iii)(C)(8) that was inadvertently not removed in SR–Phlx–2024–71.

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.[183]:

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[184] in general, and furthers the objectives of Section 6(b)(5) of the Act,[185] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The Exchange's proposal to align a number of Phlx rules to other Nasdaq affiliated markets, thereby harmonizing rules, will result in greater uniformity, and ultimately less burdensome and more efficient regulatory compliance by market participants. As such, the proposed rule change will foster cooperation and coordination with persons engaged in facilitating transactions in securities and will remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange also believes that more consistent rules will increase the understanding of the Exchange's operations for market participants that are members on multiple Nasdaq affiliated markets, thereby contributing to the protection of investors and the public interest.

Options 2, Section 10

The Exchange's proposal to amend Options 2, Section 10(a)(iii) to add the words ''the internal PBBO or'' before NBBO, similar to Options 2, Section 10(a)(ii) is consistent with the Act. The proposed amendment will conform the rule text with language throughout the Options 3 trading rules that describe the Exchange's best price with references to the internal PBBO and NBBO. Additionally, the Exchange's amendment will protect investors and the general public by adding clarity to current rule text as well as harmonizing the rule text with Options 3 language.

Options 3, Section 11

Block Order Mechanism

The Exchange's proposal to adopt a new, optional, Block Order Mechanism in Options 3, Section 11(a), that is identical to ISE's Block Order Mechanism at Options 3, Section 11(a), and is consistent with the Act as the

[181] Options 5, Section 4 was modified in SR–Phlx–2024–71. *See* Options 3, Section 23(a)(2). SR–Phlx–2204–71 renamed the PHLX Orders Feed to the Nasdaq Phlx Order Feed. *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.

[182] *See* Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 at 106911 (December 30, 2024) (SR–Phlx–2024–71).

[183] *See https://www.nasdaqtrader.com/MicroNews.aspx?id=OTA2024-17.*

[184] 15 U.S.C. 78f(b).

[185] 15 U.S.C. 78f(b)(5).

mechanism will offer market participants with additional functionality for seeking out liquidity for larger-sized orders. The Exchange believes the new mechanism will promote and foster competition because it should minimize the market impact of large orders and allow members to efficiently execute these orders which may result in increased liquidity available at improved prices for members' orders. The proposed Block Order Mechanism will provide equal access to Block Orders for all market participants, as all members that subscribe to the Exchange's data feeds will have the opportunity to interact with Block Orders entered through this mechanism.[186] Further, the Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system because the Block Order Mechanism will be functionally identical to the mechanism currently available on the ISE. The Exchange believes that the consistency will benefit investors by promoting a fair and orderly national options market system. The proposed priority and allocation rules for the Block Order Mechanism are similar to the Exchange's current Public Customer priority size pro-rata allocation methodology that gives priority to Public Customer orders. The Exchange believes this will ensure a fair and orderly market by maintaining priority of orders and quotes and protecting Public Customer orders, while still affording the opportunity to seek liquidity during each Block mechanism commenced on the Exchange. By keeping the priority and allocation rules for a Block mechanism similar to the standard allocation used on the Exchange, the proposed rule change will reduce the ability of market participants to misuse this mechanism to circumvent standard priority rules in a manner designed to prevent fraudulent and manipulative acts and practices, and to promote just and equitable principles of trade on the Exchange. The proposed execution and allocation rules will allow Block Orders to interact with interest on the Exchange's order book in an efficient and orderly manner. The Exchange believes this interaction of orders will benefit investors by increasing the opportunity for options orders to receive executions.

Finally, the proposal to set a timer for members to enter Responses to the Block Order Mechanism, Facilitation Mechanism or Solicited Order Mechanism for no less than 100 milliseconds and no more than 1 second is consistent with the Act. Today, Phlx's PIXL Auction has a response timer set at no less than 100 milliseconds and no more than 1 second. Additionally, ISE, GEMX and MRX also utilize this same time period for entering responses for PIMs, Block Order Mechanisms, Facilitation Mechanisms and Solicited Order Mechanisms. The Exchange believes that a timeframe of no less than 100 milliseconds and no more than 1 second is a reasonable timeframe that has permitted market participants to enter responses in the aforementioned auctions.

Facilitation and Solicited Order Mechanisms

The proposed Facilitation Mechanism and SOM, that are identical to ISE's Facilitation Mechanism and SOM in Options 3, Section 11(b)–(e), are consistent with the Act and promote and foster competition by providing members with the opportunity to seek liquidity and potential price improvement for larger sized orders. Both mechanisms allow members to enter two-sided orders for execution with the possibility of the agency order receiving price improvement. In both mechanisms, an agency order is submitted to the Exchange by an initiating member with a matching contra-side order equal to the full size of the agency order. The agency side of the two-sided order is then exposed to market participants during an auction timer allowing all market participants an opportunity to compete and participate in the execution of the agency order. Both mechanisms allow for broad participation in their competitive auctions by all types of market participants.[187] The Exchange believes that these proposals remove impediments to and perfect the mechanism of a free and open market and a national market system by (1) increasing competition on the Exchange by introducing new auctions; (2) providing more options contracts with opportunity for price improvement; and (3) incentivizing market participants to initiate auctions, particularly given the opportunity for allocation. Increases in the number of auctions initiated on the Exchange using the mechanisms will directly correlate with an increase in the number of agency orders that are provided with the opportunity to receive price improvement over the NBBO. The Exchange believes this interaction of orders will benefit investors by increasing the opportunity for options orders to receive executions.

With respect to orders entered into the Facilitation Mechanism, the orders are required to be entered at a price that is (A) equal to or better than the NBBO and the internal PBBO[188] on the same side of the market as the agency order unless there is a Public Customer order on the BBO or internal PBBO on the same side of the market as the agency order, in which case the order must be entered at an improved price over the Public Customer order; and (B) equal to or better than the ABBO on the opposite side. With respect to the SOM, the Exchange would require that orders be entered into the SOM at a price that is equal to or better than the NBBO and the internal PBBO on both sides of the market; provided that, if there is a Public Customer order on the BBO or internal PBBO, the order must be entered at an improved price over the Public Customer order. These order entry checks promote a fair and orderly national options market system by preventing trade-throughs. The proposed priority and allocation rules for the Facilitation Mechanism and SOM are similar to the Exchange's current customer priority size pro-rata allocation methodology as both give priority to Public Customer orders. The Exchange believes that these allocation models are consistent with the Act because they are intended to incentivize participation in these auctions. The Exchange does not believe that utilizing Phlx's Options 3, Section 10 allocation methodology will erode competition as the same allocation methodology currently applies to Phlx's PIXL allocations. Providing Market Makers with the ability to receive enhanced allocations in these auction mechanisms would bring liquidity to these auctions in the same way that liquidity is incentivized on Phlx's order book. More liquidity drives price competition and encourages Market Makers to quote tighter in order to execute against the liquidity which encourages interaction on the part of other market participants. Market Makers, unlike other market participants, have quoting

[186] Auction notifications will be disseminated through Nasdaq Phlx's Order Feed data feed. *See* Options 3, Section 23(a)(2). SR–Phlx–2204–71 renamed the PHLX Orders Feed to the Nasdaq Phlx Order Feed. *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.

[187] All market participants are able to receive the auction broadcast and may respond by submitting competing interest (*i.e.,* responses, orders and quotes).

[188] The internal BBO represents the Exchange's non-displayed order book. *See* Options 3, Section 4(b)(7).

obligations.[189] Finally, the Exchange notes that its proposal permits the facilitating member to be allocated up to forty percent (40%), thereby incentivizing the facilitating member to bring liquidity to Phlx.

The Exchange believes this will ensure a fair and orderly market by maintaining priority of orders and quotes and protecting Public Customer orders, while still affording the opportunity to seek liquidity and for potential price improvement during each auction commenced on the Exchange. By keeping the priority and allocation rules for an auction similar to the standard allocation used on the Exchange with respect to Public Customer priority, the proposed rule change will reduce the ability of market participants to misuse this mechanism to circumvent standard priority rules in a manner designed to prevent fraudulent and manipulative acts and practices, and to promote just and equitable principles of trade on the Exchange. As proposed in Supplementary Material .01 to Options 3, Section 11, it will be a violation of a Member's duty of best execution to its customer if it were to cancel a Facilitation Order to avoid execution of the order at a better price. Finally, as proposed in Supplementary Material .03 to Options 3, Section 11 Members may enter contra orders that are solicited and any solicited contra orders entered by a member to trade against Agency Orders may not be for the account of a Phlx Market Maker that is assigned to the options class. The Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system because the Facilitation Mechanism and SOM will be identical to the mechanisms currently available on ISE except for the allocation methodology as noted above. The Exchange believes that the consistency will benefit investors by promoting a fair and orderly national options market system.

The proposed execution and allocation rules will allow orders entered into the Facilitation Mechanism and SOM to interact with interest on the Exchange's order book in an efficient and orderly manner. The Exchange believes this interaction of orders will benefit investors by increasing the opportunity for options orders to receive executions.

With respect to the Complex Facilitation Mechanism and the Complex SOM, the Exchange believes that these mechanisms may provide opportunities for Complex Orders to receive price improvement thereby perfecting the mechanism of a free and open market and a national market system. Additionally, the introduction of a Complex Facilitation Mechanism and the Complex SOM may increase competition in the auctions by offering additional choices to market participants for executing Complex Orders on Phlx. Finally, the introduction of a Complex Facilitation Mechanism and the Complex SOM provides more options contracts with price improvement, and incentivizes market participants to initiate more auctions, particularly given the auto-match feature.

The Exchange's proposal at Supplementary Material .04 to Options 3, Section 11 to permit Orders and Responses that are entered into the Facilitation or Solicited Order to receive executions at the mid-price between the standard minimum trading increments for the options series (''Split Prices'') is consistent with the Act and perfects the mechanism of a free and open market and a national market system because it would provide members with greater flexibility in the pricing of their auction trades and allow a greater opportunity for price improvement for large-size orders. Additionally, the proposed rule change would provide for mechanisms that are competitive with floor-based exchange models, such as Phlx's trading floor, where Split Prices are permitted.[190]

The Exchange believes that the proposal to adopt Facilitation ISOs and Solicitation ISOs in Supplementary Material .06 and .07 to Options 3, Section 11 is consistent with the Act and promotes fair competition by providing an additional and efficient method to initiate a Facilitation or Solicited Order auction while preventing trade-throughs. The entering member, simultaneous with the transmission of the Facilitation ISO or Solicitation ISO to the Exchange, remains responsible for routing one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting Facilitation or Solicitation auction price, and for Solicitation ISO, has swept all interest in the Exchange's book priced better than the proposed auction starting price. ISE has identical order types at Supplementary Material .06 and .07 to Options 3, Section 11. Additionally, the Exchange believes that the proposed changes to the definition of ISOs in Options 3, Section 7(b)(4) are consistent with the Act as they would align the level of detail in the ISO rule with ISE's ISO rule at Options 3, Section 7(b)(4) by specifying how ISOs may be submitted. As such, the Exchange believes that its proposal will promote transparency in the Exchange's rules and consistency across the rules of the Nasdaq affiliated options exchanges.

The Exchange's proposes to add rule text at Supplementary Material .08 to Options 3, Section 11 related to Complex Facilitation and Complex SOM Orders and to add similar rule text in Options 3, Section 13(b)(10)(iii) with respect to PIXL Orders with stock/ETF components is consistent with the Act. With respect to short sale regulation, the proposed handling of the stock/ETF component of a Complex Order under this proposal does not raise any issues of compliance with the currently operative provisions of Regulation SHO[191] and, therefore, the proposal promotes just and equitable principles of trade. When a Complex Order has a stock/ETF component, members must indicate, pursuant to Regulation SHO, whether that order involves a long or short sale. NES, as a trading center under Rule 201, is compliant with the requirements of Regulation SHO. Of course, broker-dealers, including both NES and the members submitting orders to ISE with a stock/ETF component, must comply with Regulation SHO. NES' compliance team updates, reviews and monitors NES' policies and procedures including those pertaining to Regulation SHO on an annual basis.

Identical to Supplementary Material .09 of ISE Options 3, Section 13, in the case where a response, PAN response, or an unrelated limit complex order includes a short sale order in the underlying covered security, executing such order at its stated limit price when the facilitating member's contra order, contra-side Complex Order, or Counter-Side Order does not include a short sale order in the underlying security would protect investors and the public interest by considering all prices at which the auction could execute. Under these

[189] *See* Options 2, Section 5 for intra-day quoting obligations. Lead Market Makers also have quoting obligations during the Opening Process pursuant to Options 3, Section 8.

[190] *See* Phlx Options 8, Section 25(m), which states that Floor brokers are able to achieve split price priority in accordance with Options 8, Section 25(a)(2), provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Phlx member broker-dealer (''Phlx member BD'') must ensure that the Phlx member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2–2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.

[191] 17 CFR 242.200 *et seq.*

circumstances, the Response, Complex Order PAN response, or unrelated Limit Complex Order would be considered for execution at its stated limit price (provided the limit price is compliant with the short sale price test in Rule 201 of Regulation SHO) while the member's contra order, contra-side solicited Complex Order, or Counter-Side Order does not need to comply with the short sale price test in Rule 201 of Regulation SHO because the order is not short. Utilizing the order's stated limit price in this case allows the responder with a short sale order to participate in the auction while the agency order is allocated the best price possible while complying with the short sale price test. The Exchange believes that this behavior is consistent with the protection of investors and the public interest because it attempts to afford price improvement to the agency order over the responder to the auction. Finally, the Exchange believes that including responses with a short sale order in the underlying covered security may create additional competition in the Complex SOM, Complex Facilitation and Complex PIXL auction and provides the agency order with additional opportunities for potential price improvement.

In contrast, when the facilitating member's contra order, contra-side Complex Order, or Counter-Side Order includes a short sale order in the underlying covered security, the auction must be allocated at a price that is short sell compliant. In this case, each short sale compliant price would be considered in determining the price at which the Complex SOM, Complex Facilitation and Complex PIXL auction may execute and, because the member contra order, solicited contra-side Complex Order, or Counter-Side Order are short, the Exchange will only consider prices that comply with the short sale price test in Rule 201 of Regulation SHO. As a result, the auction may allocate at the agency order's stated limited price or better depending on the prices of the Responses. Also, the auction Responses may execute at their stated limit price or better depending on the final auction price. The Exchange believes its proposal is consistent with the Act and the protection of investors because both the agency order and responders may receive a better price in this case. This is in contrast to the prior scenario where the member's contra order, contra-side solicited Complex Order, or Counter-Side Order does not need to comply with the short sale price test. Utilizing the proposed stated limit price or better where a member's contra order, contra-side solicited Complex Order, or Counter-Side Order includes a short sale order allows the Exchange to potentially provide a price improvement opportunity to the agency order and to the auction Response. With the proposed amendments, Complex SOM, Complex Facilitation, and Complex PIXL auction responders who submit a Response would be aware of the auction price that would comply with the short sale price test in Rule 201 of Regulation SHO. The proposed amendment allows members to participate in auctions with a short sale Response and such participation facilitates competition in these auctions. This proposed approach is in lieu of prohibiting members whose auction Responses or resting Limit Complex Orders include a short sale order from responding to these auctions, which would limit competition in the auction. By allowing additional Responses to participate in the auction, the Exchange believes that the proposal would benefit investors and the public interest because the additional interest may increase competition in these auctions, which may lead to better prices.

The Exchange's proposal to amend Options 3, Section 10(c) to add an applicability section identical to ISE Options 3, Section 10(c) is consistent with the Act as this additional information will make clear to members that the order book allocation rules do not apply to specific auction mechanisms such as the Block Order Mechanism described within Options 3, Section 11(a), the Facilitation Mechanism described within Options 3, Section 11(b), the Solicited Order Mechanism described within Options 3, Section 11(d), PIXL described within Options 3, Section 13. The Exchange notes that its proposed rules provide for the allocation methodology in each mechanism thereby protecting investors and the public interest by specifying the allocation methodology for the order book separately from each auction mechanism.

The Exchange's proposal at Options 3, Section 11(f) and (g) to permit certain auctions for complex strategies to operate concurrently with auctions for a single option series that is a component of the complex strategy is consistent with the Act as it provides for the orderly processing of concurrent complex and single leg auctions. The Exchange believes that permitting single leg auctions to occur at the same time as a Complex Order auction as specified above would encourage market participants to utilize the single leg order auction mechanisms as well as the Complex Order mechanisms and, thereby remove impediments to, and perfect the mechanism of, a free and open market and national market system. A member that has auction-eligible interest to execute when another Complex Order auction is ongoing can either re-submit that order to the Exchange after the auction has concluded, or submit the order to another options market that provides similar auction functionality. Phlx market data feeds provide information to members about when a Complex Order auction is ongoing, and members can therefore use this information to make appropriate routing decisions. ISE has identical rules at Options 3, Section 11(f) and (g).

Amending Options 3, Section 16, Complex Order Risk Protections, to provide that the strategy protections in Options 3, Section 16(b), which include a Vertical Spread Protections, a Calendar Spread Protection, a Butterfly Spread Protection, and a Box Spread Protection, will not apply to Complex Orders being auctioned and auction Responses in the Facilitation Mechanism, Solicited Order Mechanism within Options 3, Section 11 is consistent with the Act because Complex Orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously outside its intrinsic value. This rule text is identical to ISE Options 3, Section 16(b).

Options 3, Section 12

Customer Cross Orders

The adoption of Customer Cross Orders, that is identical to ISE Options 3, Section 12, is consistent with the Act because this proposal would permit members to continue to enter and execute paired Public Customer orders, while also protecting Public Customer Orders on the book at the same price. Today, the Exchange permits an Initiating member to enter a PIXL Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PIXL Auction.[192] The Exchange's proposal would continue to permit the ability to enter paired Public Customer Orders paired orders to be automatically executed, however, not

[192] *See* Phlx Options 3, Section 13(f). The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public Customer order.

through PIXL. Today, a paired Public Customer Order is subject to execution pursuant to Options 3, Section 13(i) and (ii). The Exchange is removing the current provisions within Options 3, Section 13(b)(5) with this proposed rule change. The Exchange's proposal would require executions to be at or between the best bid and offer on the Exchange and not at the same price as a Public Customer Order on the Exchange's Order Book. Finally, the execution may not be through the NBBO the same as any other order entered into the Exchange's order book. All members would be able to continue executing paired Public Customer Orders and such orders will be rejected if they cannot be executed, as is the case today. Finally, paired Public Customer Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3, as is the case today.

Additionally, the Exchange's proposal to offer Complex Customer Cross Orders at proposed Options 3, Section 12(b) is consistent with the Act as members will continue to be able to execute Complex paired Public Customer Orders as they do today. With this proposal, similar to Customer Cross Orders, the Exchange proposes to remove the ability to enter Complex paired Public Customer Orders as a PIXL cross. Complex Customer Cross Orders would be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Public Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Options 3, Section 14(c)(2).[193] Complex Customer Cross Orders will be rejected if they cannot be executed.

This proposal is not changing the manner in which a Complex Order with a stock/ETF component is treated today on Phlx. This proposal is consistent with today's treatment of Complex Orders with a stock/ETF component. As is the case for any Complex Order with a stock/ETF component, and as described in this proposal, members may only submit Complex Customer Cross Orders with a stock/ETF component if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS as described above for the Facilitation and Solicited Order Mechanisms. Members submitting such 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 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 orders containing a stock/ETF component. This proposed language is an existing requirement that is being added to the rule text to make explicit the obligation of members to submit orders that comply with the QCT exemption.

Also, with the adoption of Customer Cross Orders, the Exchange proposes to amend Options 3, Section 16, Complex Order Risk Protections.[194] Specifically, the Exchange proposes to provide that the strategy protections in Options 3, Section 16(b), which include a Vertical Spread Protections, a Calendar Spread Protection, a Butterfly Spread Protection, and a Box Spread Protection, will not apply to Customer Cross Orders pursuant to Options 3, Section 16. As described above with other auctions, a Customer Cross Order is a two-sided order where the contra-side order is willing to trade with the agency order at an agreed upon price. The Exchange believes that because paired orders are negotiated in advance by both parties it is unlikely that the parties would agree to transact at prices that would necessitate these protections. This rule text is identical to ISE Options 3, Section 16(b).

Qualified Contingent Cross Orders

The Exchange's proposal to relocate and amend the description of a Qualified Contingent Cross Order or ''QCC Order'' from Options 3, Section 7(b)(8) which states, a QCC Order is as that term is defined in Options 3, Section 12, that is identical to ISE Options 3, Section 12, is consistent with the Act. Similar to today, a QCC Order would be comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is relocated Supplementary Material .01 to Options 3, Section 7, coupled with a contra-side order or orders totaling an equal number of contracts. QCC Orders would trade in accordance with Options 3, Section 12(c) and continue to be entered through FIX. This description is identical to ISE Options 3, Section 7(j). The Exchange's proposal to align its QCC functionality to ISE will provide market participants with a harmonized approach to entering QCC Orders on all Nasdaq affiliated markets. Today, Phlx offers QCC Orders electronically and on its trading floor. The Exchange also proposes to amend Options 8, Section 30(e)(3), related to a Floor QCC, to refer to the description of a ''qualified contingent trade'' at proposed to Supplementary Material .01 to Options 3, Section 7 and to refer to the proposed QCC Order rules in proposed Options 3, Section 12.[195] QCC Orders that are currently offered on Phlx are identical to QCC Orders offered on ISE. The Exchange proposal to harmonize the rule text across its Nasdaq affiliated exchanges to reflect the harmonized functionality will remove impediments to and perfect the mechanism of a free and open market and a national market system. Phlx would continue to comply with its current QCC Order requirements.

The Exchange's proposal to adopt rule text identical to ISE Options 3, Section 12(d) with respect to Complex QCC Orders is consistent with the Act. Today, Phlx offers members the ability to enter Complex QCC Orders. Similar to today, Complex QCC Orders would automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the Complex Order Book; (ii) there are no Public Customer Complex Options Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that (A) are at or between the better of the internal PBBO or the NBBO

[193] *See supra* note 31.

[194] *See supra* note 118.

[195] Phlx Options 8, Section 30(e) similarly provides that a Floor QCC Order is comprised of an originating order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade, coupled with a contra-side order or orders totaling an equal number of contracts. Also, Options 8, Section 30(e)(1) provides that Floor QCC Orders are immediately executed upon entry into the System by an Options Floor Broker provided that (i) no Public Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO. Floor QCC Orders shall be submitted into the System by Floor Brokers on the Floor or remotely via the Options Floor Based Management System. Pursuant to Options 8, Section 30(e)(1)(a), a Floor Broker does not have to be present on the Exchange's Trading Floor to submit a Floor QCC Order to the System. A Floor Broker may remotely submit a Floor QCC Order to the System through the Options Floor Based Management System. Pursuant to Options 8, Section 30(e)(1)(b), Floor QCC Orders will be automatically cancelled if they cannot be executed. Pursuant to Options 8, Section 30(e)(1)(c), Floor QCC Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

for the individual series, and (B) comply with the provisions of Options 3, Section 14(c)(2)(i),[196] provided that no legs of the Complex Options Order can be executed at the same price as a Public Customer Order on the Exchange in the individual options series. Complex QCC Orders will be rejected if they cannot be executed. Also, each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for QCC Orders.

With this proposal, Phlx would continue to offer Complex QCC, however, Phlx would permit Complex QCC Orders be entered in one cent increments. Today, ISE permits Complex QCC Orders to be offered in one cent increments set forth in Options 3, Section 14(c)(1) as explained below in greater detail. As amended, the rule text pertaining to Complex QCC Orders at proposed Options 3, Section 22(d) would be identical to ISE.

Today, QCC Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3, Minimum Increments.[197] The Exchange's proposal to amend the minimum increment for Complex QCC Orders from the minimum increments standard within Options 3, Section 3 to the minimum increments allowable for Complex Orders at Options 3, Section 14(c)(1),[198] which permit bids and offers for Complex Options Strategies to be expressed in one cent ($0.01) increments, and the options leg of Complex Options Strategies to be executed in one cent ($0.01) increments, is consistent with the Act. The pricing of a Complex Order, whether or not it is a QCC Order, is based on the relative price of one option leg to another (as opposed to the outright price of a single option). In this case the standard increment of trading of the individual legs of a Complex Order is less relevant to the pricing of the Complex Order. In addition, each option leg of a Complex QCC Order would continue to meet the same requirements as today for execution as a Complex QCC Order. Further, the Exchange notes that the parties to a contingent trade are focused on the spread or ratio between the transaction prices for each of the component instruments (*i.e.,* the net price of the entire contingent trade), rather than the absolute price of any single component. Under the requirements of the QCT Trade Exemption,[199] the spread or ratio between the relevant instruments must be determined at the time the order is placed, and this spread or ratio stands regardless of the market prices of the individual orders at their time of execution.[200] As the Commission noted in the QCT Trade Exemption, ''the difficulty of maintaining a hedge, and the risk of falling out of hedge, could dissuade participants from engaging in contingent trades, or at least raise the cost of such trades.'' [201] Thus, the Commission found that, if each stock leg of a qualified contingent trade were required to meet the trade-though provisions of Rule 611 of Regulation NMS, such trades could become too risk and costly to be employed successfully and noted that the elimination or reduction of this trading strategy potentially could remove liquidity from the market.

In approving Cboe's proposal,[202] the Commission found that QCC Orders could facilitate the execution of qualified contingent trades, which the Commission previously had found to be beneficial to the market as a whole by contributing to the efficient functioning of the securities markets and the price discovery process. The Commission noted that QCC Orders would provide assurance to parties to stock-option qualified contingent trades that their hedge would be maintained by allowing the options component of the qualified contingent trade to be executed as a clean cross.[203]

By allowing QCC Orders with more than one option leg to trade in $0.01 increments, rather than in the standard increment applicable to simple leg orders in the options class, the proposal could facilitate the execution of QCC Orders with multiple option legs by providing additional price points at which these orders would be able to be executed, which, in turn, could facilitate the execution of qualified contingent trades. As discussed above, the Commission previously found that transactions that meet the specified requirements of the NMS QCT Trade Exemption could benefit the market as a whole by contributing to the efficient functioning of the securities markets and the price discovery process. Further, as discussed above, QCC Orders provide assurance to the parties to a stock-option qualified contingent trade that their hedge will be maintained by allowing the options component of the order to be executed as a clean cross. By allowing QCC Orders with multiple option legs to be executed in $0.01 increments, the proposal could further facilitate the execution of the option component of a stock-option qualified contingent trade. ISE Complex QCC Orders are permitted to be entered in $0.01 increments pursuant to Options 3, Section 14(c)(1). This amendment would place Complex QCC Orders on the same footing as other types of Complex Orders that would trade on Phlx and with Complex QCC Orders traded on ISE.[204] The proposed changes to QCC Orders and Complex QCC Orders would apply equally to electronic and floor trading. Therefore, the Exchange proposes to remove the current rule text in Options 8, Section 30(e) and (e)(1), (e)(1)(b) and (c), applicable to Floor QCC Orders and instead provide that a Floor Qualified Contingent Cross Order shall be

[196] Proposed Phlx Options 3, Section 14(c)(2)(i) states, 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 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. Phlx separately filed a proposal to adopt Complex Order functionality identical to ISE Options 3, Section 14 with SR–Phlx–2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

[197] Options 3, Section 3(a) provides, except as provided in Supplementary Material to Options 3, Section 3 below, all options on stocks, index options, and Exchange Traded Fund Shares trading at a price of $3.00 or higher shall have a minimum increment of $.10, and all options on stocks and index options trading at a price under $3.00 shall have a minimum increment of $.05.

[198] *See also supra* note 35.

[199] *See* Initial QCT Exemption Order. *See also* QCT Exemptive Order.

[200] *See* Securities Exchange Act Release No. 63955 (February 24, 2011), 76 FR 11533, 11540 (March 2, 2011) (SR–ISE–2010–73) (Order Granting Approval of a Proposed Rule Change To Modify Qualified Contingent Cross Order Rules).

[201] The QCC order type facilitates the execution of stock/option Qualified Contingent Trades that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of Regulation NMS (''QCT Trade Exemption''). *See also* Initial QCT Exemption Order. *See* Initial QCT Exemption Order. *See also* QCT Exemptive Order.

[202] *See* Securities Exchange Act Release No. 64653 (June 13, 2011), 76 FR 35491, 35492 (June 17, 2011) (order approving CBOE–2011–041) (''CBOE QCC Approval Order'').

[203] *See* CBOE QCC Approval Order at 35492.

[204] Phlx separately filed a proposal to adopt Complex Order functionality identical to ISE Options 3, Section 14 with SR–Phlx–2025–17. *See* Securities Exchange Act Release No. 102862 (April 15, 2025), 90 FR 16731 (April 21, 2025) (SR–Phlx–2025–17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx's Complex Order Functionality). SR–Phlx–2025–17 proposed the same operative date as this proposal as they are both part of the same technology migration.

transacted as specified in Options 3, Section 12(c) and (d).

The Exchange's proposal to remove the rule text concerning Stop Orders and their election in Supplementary Material .01 to Options 3, Section 12 and Supplementary Material .03 to Options 8, Section 30 is consistent with the Act because all Stop Orders whether they are trading on the Exchange's order book or in an auction, which have not been elected are not protected orders and are thus not considered for the acceptance or execution. The Exchange proposes to adopt the descriptions of Stop Order and Stop Limits Order identical to ISE Options 3, Section 7(d) and (e) in a separate rule change.[205] The election process for a Stop Order is described in Options 3, Section 7(d) and therefore the rule text in Supplementary Material .01 to Options 3, Section 12 and Supplementary Material .03 to Options 8, Section 30 is unnecessary.

Options 3, Section 13

The Exchange proposes to amend certain rule text in Options 3, Section 13, related to PIXL, to align its rule with that of ISE. Generally, the Exchange proposes to amend the PIXL rule to change references to ''member organization'' to ''member'' to align to ISE's term.

The Exchange's proposal to amend its order entry checks for PIXL Orders at Options 3, Section 13(a)(1)–(3) to align those entry check to ISE Options 3, Section 13 (b)(1)–(3) is consistent with the Act. With respect to order entry check for PIXL Orders for less than 50 options contracts in Options 3, Section 13(a)(1), if the PIXL Order is for a Non-Public Customer, the PIXL Order must also be better than any quote on the same side of the market as the PIXL Order. Today, Phlx re-prices orders that would otherwise lock or cross an away market.[206] The Exchange proposes to add the concept of ''internal PBBO'' in the order entry checks for a PIXL Auction in Options 3, Section 13(a)(1) and Section 13(a)(1)(A) to account for a non-displayed better price that may be available on the Exchange order book. This proposal would perfect the mechanism of a free and open market and a national market system because, with this re-pricing, an Exchange order could be available at a price that is better than the NBBO, but is non-displayed (*i.e.,* the Exchange's non-displayed order book or ''internal PBBO''). The Exchange proposes similar changes within Options 3, Section 13(a)(2) and (3) to add references to ''difference between the internal PBBO. The additional changes to Phlx Options 3, Section 13(a)(3) align the rule text to ISE Options 3, Section 13(b)(3) without a substantive change.

The Exchange's proposal to remove rule text at to Options 3, Section 13(a)(7) which provides that PIXL Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be rejected is consistent with the Act because it would allow for the execution of additional PIXL auction orders similar to ISE Options 3, Section 13 which does not restrict the submission of a PIXL Order in the final two seconds of trading. The removal of this restriction would allow Phlx to compete with ISE when executing similar orders. The Exchange is renumbering (a)(8) as new (a)(7) and is amending a cross citation in the introductory paragraph of Options 3, Section 13 to cite to proposed (a)(7).

The proposed amendments to Phlx Options 3, Section 13(b)(1)(A), which describe the choices that a member has when providing execution instructions for a PIXL Auction, are non-substantive amendments intended to simply the current rule language, that is currently overcomplicated. The Exchange believes that these amendments are designed for the protection of investors and the public interest in that they set forth the available choices with respect to price instructions in a PIXL Auction which thereby benefits market participants who elect to utilize this mechanism. As is the case today, if the PBBO on the same side of the market as the PIXL Order represents a Limit Order on the book, the stop price must be at least $0.01 better than the booked Limit Order's limit price. Once the Initiating member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (b)(i)–(iii) of Options 3, Section 13(b)(1)(A), the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

The Exchange's proposal to amend Phlx Options 3, Section 13(b)(1)(A) to clarify that, unless there are remaining contracts after including all quote(s), order(s) or PAN responses, under no circumstances will the Initiating member receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution, except when rounding is non-substantive. If there were no remaining contracts, the order would be allocated to the contra-side and this scenario would not exist. This proposed rule text aligns PIXL to current PIM functionality at ISE Options 3, Section 13(d)(7).

The Exchange's proposal to amend Options 3, Section 13(a)(4)(A) and (B) to add the phrase ''on both sides of the market'' to the Complex Order entry checks is consistent with the Act because the Exchange's Complex Order entry check ensures that the Initiating member stops the entire Complex PIXL order at a price that is better than the best net price (debit or credit) available on the Complex Order Book on both sides of the market and also improves the net price that is achievable from the best Phlx bids and offers for the individual options on both sides of the market. This check represents current System functionality and serves to ensure that Complex PIXL Auctions start at improved prices. In addition, this check is consistent with the Complex Order entry check in ISE's PIM auction at ISE Options 3, Section 13(e)(2). The Exchange believes that noting ''both sides of the market'' in the entry check provides greater transparency as to the System functionality. Removing the phrase ''provided in either case that such price is equal to or better than the PIXL Order's limit price'' in Options 3, Section 13(a)(4)(B) is consistent with the Act given that this rule text is unnecessary because price improvement is required on both sides of the market pursuant to Options 3, Section 13(a)(4).

The Exchange's proposal to amend the Surrender provisions at Options 3, Section 13(b)(1)(B) is consistent with the Act because an Initiating member will be able to submit an Initiating

[205] *See supra* note 3.

[206] Specifically, an order 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 MPV above (for offers) or below (for bids) the national best price. *See* current Phlx Options 3, Section 5(d), an order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing 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.

Order with a configurable percentage designation of ''Surrender'' up to 40% or such lower percentage requested by the member. Today, the System permits an Initiating member to elect to receive either the full 40% allocation entitlement or no allocation at all. The Exchange believes that the proposed feature will provide an Initiating member with more flexibility to choose its priority allocation percentage, similar to functionality currently offered on ISE, at Options 3, Section 13(e)(5)(iii). Any Initiating member may elect to use the PIXL Surrender feature. The Exchange's proposal to amend Options 3, Section 13(b)(1)(B) to remove the following rule text, ''. . . forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per . . .'', is consistent with the Act, because the proposed text defines ''Surrender'' as the percentage designation, which the Exchange believes more accurately defines ''Surrender.'' This rule text is being removed in favor of simply citing directly to the allocation provisions (Options 3, Section 13(b)(5)(B)(i)).

The Exchange's proposal to amend the second sentence of Options 3, Section 13(b)(1)(B), to instead provide, ''If zero (0%) is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price,'' is consistent with the Act. The proposed text makes clear that if no percentage were elected for Surrender (0%) then the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price.

The Exchange's proposal to amend Options 3, Section 13(b)(1)(C) to add ''price'' to the PIXL Auction Notification or ''PAN,'' as part of the technology migration, is consistent with the Act because adding ''price'' to the list of details will provide Participants with greater transparency with respect to the PIXL and could encourage more competition in PIXL and greater opportunity for potential price improvement in PIXL. This rule change is similar to the behavior of PAN responses on ISE Options 3, Section 13(c).[207]

The Exchange's proposal to amend Options 3, Section 13(b)(1)(G)(ii) which states, ''The minimum price increment for PAN responses and for an Initiating member's stop price and/or NWT price in the case of a Complex Order shall be entered in the increments provided in Options 3, Section 14(c)(1). Responses that improve the stop price must improve the price by at least $0.01'' is consistent with the Act. This proposed amendment is identical to ISE Options 3, Section 13(e)(4)(i). The Exchange proposes to note that the minimum price increment for PAN responses and for an Initiating member's stop price and/or NWT price in the case of a Complex Order shall be entered in the increments provided in Options 3, Section 14(c)(1) [208] and to also make clear that responses must improve the stop price by $0.01.

The Exchange's proposal to amend Options 3, Section 13(b)(1)(H) to conform the rule text to ISE Options 3, Section 13(c)(2) is consistent with the Act. With this proposed change, the System will not cancel a PAN response that exceeds the size of the PIXL Order as it does today, rather, the Exchange will cap the size of the PAN responses to the auction size for purposes of the allocation methodology. With this change, better priced interest gets executed in full only if there is sufficient size to execute against such interest and Public Customer interest would continue to execute first in price time priority. This proposed change would continue to ensure a fair and orderly market by maintaining and protecting the priority of Public Customer orders, while still affording the opportunity for all market participants to seek liquidity and potential price improvement.

The Exchange's proposal to amend Options 3, Section 13(b)(1)(I) with respect to the handling of a PAN response is consistent with the Act because the proposed rule change is intended to protect investors and the public interest. By way of example, during a PIM auction, similar to the proposals for the Facilitation Mechanism and SOM, once an order or quote is received on the opposite side of the PIM Agency Order which is marketable with the Agency Order, it changes the internal PBBO and potentially the NBBO. If such initial order or quote does not comprise enough size to fully satisfy the PIM Agency Order, since it has changed the internal PBBO/NBBO, it now prevents PAN responses which improve the stop price of the auction from being entered at a price that is inferior to the initial order or quote, despite such initial order or quote's inability to satisfy the full volume of the Agency Order at an improved price. By utilizing the better of the internal PBBO or the NBBO at the start of the relevant PIXL auction, the Exchange believes that better priced responses would be permitted to trade with the Crossing Transaction. Today, those better priced responses would be rejected. This proposal would permit a response to these auctions to be entered at a price that is equal to or better than the better of the internal PBBO or the NBBO on the same side of the market at the start of the auction and on the opposite side of the market at the time the Response is received, thereby preventing potential auction manipulation which can occur when an order/quote is entered at a price that improves the price of the Crossing Transaction. This amendment would allow other responses to that auction to be entered at a price that improves the price of the Crossing Transaction, but is inferior to such other quote/order responses which improved upon the internal PBBO or NBBO. Utilizing the price of the market at the start of the auction, for the same side check, would prevent an order or quote from potentially manipulating the final auction price by changing the internal PBBO/NBBO while not fully satisfying the Agency Order, thus preventing PAN responses from being entered at a price that improves the stop price of the auction, but remains inferior to the price of such initial order or quote. The entry checks differ for the same and opposite sides of the market because manipulation may not occur on the opposite side of the response because only interest on the same side as the response will be eligible to trade with the auctioned order. The proposed amendments would allow Agency Orders to potentially trade at improved prices.

The Exchange's proposal to amend Options 3, Section 13(b)(1)(J) to replace the words ''immediately cancelled'' with ''rejected'' is a non-substantive technical amendment. Non-eligible and non-compliant orders that are submitted into PIXL are rejected as those orders are reviewed for compliance with Exchange rules, these orders are not immediately cancelled, as technically there is time, however miniscule, between the submission of the order and the rejection of the order. The Exchange

[207] The Exchange also amended the name of the TOPO data feed and relocated the Specialized Quote Feed or SQF Protocol in a separate rule change. The TOPO data feed was amended to the Phlx Orders data feed. Additionally, the SQF protocol was relocated to Supplementary Material .03(C) to 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.

[208] *See also supra* note 35.

believes this non-substantive change adds more clarity to the rule text.

The Exchange's proposal to amend Options 3, Section 13(b)(1)(K) to add language regarding PAN responses in a PIXL Auction is consistent with the Act and protects investors and the public interest by making clear the current handling of PAN responses by not allowing members to submit multiple PAN responses using the same badge/mnemonic and would also not aggregate all of those PAN responses at the same price. Further, additional PAN responses from the same badge/mnemonic for the same auction ID will automatically replace the previous PAN responses.

The Exchange's proposal to change the term ''Reference BBO'' in Options 3, Section 13(b)(2)(B) and Options 3, Section 13(b)(6) to ''internal PBBO'' to align to the rule text utilized in Options 3, Section 5(d) is a non-substantive change, both terms mean the same thing.

The Exchange's proposal to amend Options 3, Section 13(b)(2)(C) to amend and add scenarios that would cause the early termination of a Complex Order PIXL Auction is consistent with the Act. The Exchange's proposal addresses situations where a marketable Complex Order is received, a non-marketable Complex Order is received and the scenario where the Complex PIXL Order may execute against an unrelated order. These additional scenarios are identical to ISE Options 3, Section 13(e)(5)(iv), ISE Options 3, Section 13(e)(4)(iv)(D), and ISE Options 3, Section 13(e)(4)(iv)(C). In the case of a trading halt on the Exchange in the affected series, the entire PIXL Order would be executed at the stop price solely against the Initiating Order. This rule text is similar to ISE Options 3, Section 13(d)(5). Any unexecuted PAN responses will be cancelled. If a trading halt is initiated after the order is entered into the Complex PIXL, such auction will be automatically terminated without an execution. This rule text is identical to ISE Options 3, Section 13(e)(4)(iv)(E). The Exchange proposes to early terminate the Complex PIXL Auctions in proposed Options 3, Section 13(b)(2)(C)(i) and (ii) to permit executions that would otherwise be outside of the complex order book. The Exchange proposes to early terminate the Complex PIXL Auctions in proposed Options 3, Section 13(b)(2)(D) to avoid executions which are outside of the complex order book. The Exchange proposes to early terminate the Complex PIXL Auctions in proposed Options 3, Section 13(b)(2)(E) to provide executions for resting orders. Finally, proposed Options 3, Section 13(b)(2)(F) (formally Options 3, Section 13(b)(2)(D)) would continue to provide that a PIXL Auction will early terminate any time there is a trading halt on the exchange in the affected series.

With these proposed amendments, a Complex PIXL is subject to early termination on the receipt of a Complex Order or quote 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 or 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 being auctioned to be outside of the best bid or offer for the same complex strategy on the Complex Order book. This text is identical to ISE Options 3, Section 13(e)(4)(iv)(B) and (C).[209] The Exchange proposes to add the ability to early terminate a Complex PIXL upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs because without early terminating the auction the marketable Complex Order would not be able to trade until the end of Complex PIXL Auction. Eligible interest remaining on the Complex Order Book after an auction trades may trade with subsequent auctions, including any Complex Order auction, as those are processed.

The Exchange's proposal to remove the remainder of the rule text in Phlx Options 3, Section 13(b)(3) is consistent with the Act because the rule text is unnecessary. Current Phlx Options 3, Section 13(b)(7) provides that if the execution PIXL Auction price (except if it is a Complex Order) would be the same or better than an order on the Limit Order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least $0.01 better than the resting order's limit price. If such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. The Exchange notes that this language would continue to apply to an early termination for a PIXL Auction (except if it is a Complex Order), any time the internal PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order. The Exchange is amending Phlx's functionality such that the execution described in current Options 3, Section 13(b)(3)(B) will not execute in this manner because the Exchange is removing the early termination provision in current Options 3, Section 13(b)(2)(C) which describes the cPBBO including Reference BBO or the Complex Order book crossing the PIXL Order stop price on the same side of the market as the PIXL Order. As noted above, the proposed new rule text in Options 3, Section 13(b)(3) explains how a PIXL Order would execute in the case of a trading halt which applies to current Options 3, Section 13(b)(2)(D).

The Exchange's proposal to remove the second sentence from current Options 3, Section 13(b)(4) is consistent with the Act because the Exchange has amended the early termination provisions to permit a resting Complex Order in the same complex strategy on either side of the market that becomes marketable against the Complex Order Book or bids and offers for the individual legs to early terminate a PIXL Auction. Therefore, this sentence is being removed for consistency.

The Exchange's proposal to amend the System allocation to the Initiating member after Public Customer orders have been allocated in Options 3, Section 13(b)(5)(B)(i) based on the initial size of the PIXL Order instead of remaining contracts after Public Customer interest is satisfied is consistent with the Act because allocating based on the ''initial size of the PIXL Order'' provides an expectation for members that respond to PIXL Orders, whether that allocation is size pro-rata or auto-match. With this proposed change, the Exchange believes that members are better able to determine their allocation when responding with a PAN if the Initiating member's allocation is based on the initial size of the PIXL Order after Public Customer interest is satisfied, rather than the remaining contracts after Public Customer interest is satisfied. The Exchange's proposal provides greater transparency to market participants in that when they respond to a PIXL Auction they are aware of the initiating size, as compared to an undetermined remaining size which is unknown as responses are not visible to

[209] ISE Options 3, Section 13(e)(4)(iv)(B and (C) state that the exposure period will automatically terminate . . . (B) upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs, (C) upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the Agency Complex Order that would cause the execution of the Agency Complex Order to be outside of the best bid or offer on the Complex Order Book.

all market participants. The Exchange's proposal is similar to ISE Options 3, Section 13(d)(3).

Replacing the term ''cPBBO'' with ''best net price achievable from the best bids and offers for the individual legs'' throughout Options 3, Section 13 is consistent with the Act because the proposed new text is utilized in ISE Options 3, Section 13 to describe the best price for the individual legs. Replacing the term ''pro-rata basis'' in Options 3, Section 13(b)(5)(B)(iv) with the term ''size pro-rata basis'' aligns usage of that term in Options 3, Section 10. The Exchange is removing the rule text that explains size pro-rata because size pro-rata allocation is explained in Options 3, Section 10 which is referred to in the rule text.[210]

Amending the rounding in Options 3, Section 13(b)(5)(B)(vi) from down to up is consistent with the Act because this methodology produces an equitable outcome during allocation that is consistent with the protection of investors and the public interest because all market participants are aware of the methodology that will be utilized to calculate outcomes for allocation purposes. Today, Phlx PIXL rounds down to the nearest integer when it allocates. Options 3, Section 10 was amended in a separate rule change to reflect rounding up on Phlx.[211] As a result of changing the rounding methodology, residual odd lots will no longer exist. If the result of an allocation is not a whole number, it will now be rounded up to the nearest whole number instead of down. Finally, with respect to rounding, because it is rounding up, the provisions which describe allocations for remainders of less than one contract cannot occur and, therefore, this rule text is being removed because such remainders would not be possible. Additionally, the Odd Lot Allocation within Phlx Options 3, Section 10(a)(1)(F) was eliminated in a separate rule change[212] because Phlx will round up which would not result in remaining contracts to be allocated after rounding. There is no net benefit or negative to electing to round up versus utilizing any other method of rounding (down, banker's rounding, etc.) provided the rounding is handling uniformly and applied in the same manner to each trade executed by the System. The Exchange will uniformly apply its proposed rounding methodology, rounding up, to all transactions executed on Phlx. Finally, similar to ISE Options 3, Section 13(e)(5)(ii),[213] the Exchange proposes that after Public Customer interest on the Complex Order Book and PAN responses at a given net price, non-Public Customer interest on the Complex Order Book and PAN responses will participate in the execution of the Complex PIXL Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

Amending Options 3, Section 13(b)(8) to amend the first sentence to provide ''one minimum price variation (as provided in Options 3, Section 14(c)(1))'' in lieu of ''$0.01'' is consistent with the Act because it will prevent the Complex PIXL order from executing at a price where there is a resting Complex Order on the same side of the market while still allowing the Complex PIXL order to execute and receive price improvement. 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.

Options 3, Section 22

The Exchange's proposal to amend Options 3, Section 22 to account for the new auction mechanisms that are exceptions to the order requirements in this rule is consistent with the Act because the new text will inform member organizations where exceptions exist for order exposure in the rules. The Exchange's proposal to add a new Supplementary Material .01 to Options 3, Section 22 is consistent with the Act and will protect investors and the general public because it would prevent member organizations from executing agency orders to increase its economic gain from trading against the order if they do not first expose the order. Further, the rule states that it is a violation of Options 3, Section 22(b) for a member organization to circumvent the information barriers in Options 3, Section 22(d) by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the member organization immediately upon their entry into the System. This proposed rule text is identical to ISE Supplementary Material .01 to Options 3, Section 22. The Exchange's proposal to add a new Supplementary Material .03 to Options 3, Section 22 is consistent with the Act because the proposed rule text expands on the exposure obligations for limitations on principal transactions and informs member organizations about the necessary information barriers that should exist to prevent leakage of information about certain orders. The proposed changes are identical to rule text in Options 3, Section 22.

Corresponding Changes to Options Rules

The Exchange proposes to adopt a new Supplementary Material .02(d)(4) to Options 3, Section 7 to make clear that these order types are Immediate-or-Cancel Orders is consistent with the Act as this language aligns with the proposed auction mechanism wherein the order is cancelled if not executed. ISE has identical language at Supplementary Material .02(d)(4) to Options 3, Section 7.

Amending Options 3, Section 22, Limitations on Order Entry, is consistent with the Act as the mechanisms that are being added are exceptions to the order exposure rule, which requires member organizations to expose trading interest to the market before executing agency orders as principal or before executing agency orders against orders that were solicited from other broker-dealers. ISE has identical rule text at Options 3, Section 22.

Section 11(a) Analysis

The Exchange believes that the proposed Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, and Complex SOM in Options 3, Section 11 are consistent with Section 11(a)(1) of the Act[214] and the rules promulgated

[210] The Exchange proposes to remove the phrase, ''with Public Customer interest being satisfied first in time priority, then to SQT, RSQT, and Floor Market Maker interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis.''

[211] *See supra* note 3.

[212] *Id.*

[213] ISE Options 3, Section 13(e)(5)(ii) states, after Priority Customer interest on the Complex Order Book at a given net price, non-Priority Customer interest on the Complex Order Book will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

[214] 15 U.S.C. 78k(a). Section 11(a)(1) prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or its associated person exercises investment discretion unless an exception applies.

thereunder. Generally, Section 11(a)(1) of the Act restricts any member of a national securities exchange from effecting any transaction on such exchange for (i) the member's own account, (ii) the account of a person associated with the member, or (iii) an account over which the member or a person associated with the member exercises investment discretion (collectively referred to as ''covered accounts''), unless a specific exemption is available. Examples of common exemptions include the exemption for transactions by broker dealers acting in the capacity of a market maker under Section 11(a)(1)(A),[215] the ''G'' exemption for yielding priority to non-members under Section 11(a)(1)(G) of the Act and Rule 11a1–1(T) thereunder,[216] and the ''Effect vs. Execute'' exemption under Rule 11a2–2(T) under the Act.[217] The ''Effect vs. Execute'' exemption permits an exchange member, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute transactions on the exchange. To comply with Rule 11a2–2(T)'s conditions, a member: (i) must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[218] (iii) may not be affiliated with the executing member; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in Rule 11a2–2(T). For the reasons set forth below, the Exchange believes that members entering orders and Responses into the Block Order Mechanism pursuant to Options 3, Section 11(a), Facilitation Mechanism pursuant to Options 3, Section 11(b), Complex Facilitation Mechanism pursuant to Options 3, Section 11(c), SOM pursuant to Options 3, Section 11(d), and Complex SOM pursuant to proposed Options 3, Section 11(e) would satisfy the requirements of Rule 11a2–2(T).

Rule 11a2–2(T)'s first requirement is that orders for covered accounts be transmitted from off the exchange floor. While the Exchange does operate a physical trading floor, the proposed Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, and Complex SOM are electronic auctions and are not eligible for floor trading. In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a covered account order is transmitted from a remote location directly to an exchange's floor by electronic means.[219] The Exchange represents that the System and the proposed Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, and Complex SOM auctions described above will receive all orders and Responses electronically through remote terminals or computer-to-computer interfaces. The Exchange represents that auction orders and Responses, for covered accounts from members, will be transmitted from a remote location directly to the proposed respective auction mechanism described above by electronic means.

The second condition of Rule 11a2–2(T) requires that neither a member nor an associated person participate in the execution of its order once the order is transmitted to the floor for execution. The Exchange represents that, upon submission to the Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, and Complex SOM, an order or Response will be executed automatically pursuant to the rules set forth in proposed Options 3, Section 11(a) for Block Order Mechanism, Options 3, Section 11(b) for Facilitation Mechanism, Options 3, Section 11(c) for Complex Facilitation Mechanism, Options 3, Section 11(d) for SOM, and Options 3, Section 11(e) for Complex SOM. In particular, execution of an order (including an order entered into the Block Order Mechanism, a Facilitation Order or a Solicited Order, as applicable) or a Response sent to the applicable auction mechanism depends not on the member entering the respective order or Response, but rather on what other interest is present and the priority of that interest. Thus, at no time following the submission of a respective order or a Response is a member or any associated person of such member able to acquire control or influence over the result or timing of the order or Response execution.[220] Once the order (including an order entered into the Block Order Mechanism, a Facilitation Order or a Solicited Order, as applicable) has been transmitted, the member that transmitted such order into the Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, or Complex SOM, (as applicable) will not participate in the execution of the respective order. Members submitting the orders (including an order entered into the Block Order Mechanism, a Facilitation Order or a Solicited Order, as applicable) into the applicable mechanism will relinquish control to cancel their orders entered into the auction, or modify or cancel their order entered into the Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, or Complex SOM (as applicable).[221] Further, no member, including the member submitting the order into the applicable auction mechanism described above, will see Responses submitted into any of the auction mechanisms and therefore will not be able to influence or guide the execution of their orders or Responses, as applicable.

Rule 11a2–2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that the requirement is satisfied when automated exchange facilities, such as the Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, or

[215] 15 U.S.C. 78k(a)(1)(A).

[216] 15 U.S.C. 78k(a)(1)(G) and 17 CFR 240.11a1–1(T).

[217] 17 CFR 240.11a2–2(T).

[218] The member may, however, participate in clearing and settling the transaction.

[219] *See, e.g.,* Securities Exchange Act Release Nos. 95445 (August 8, 2022), 87 FR 49894 (August 12, 2022) (SR–MEMX–2022–10) (approving options trading on MEMX Options); 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR–BATS–2009–031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR–BSE–2008–48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR–NASDAQ–2007–004 and SR–NASDAQ–2007–080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10–131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR–PCX–00–25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR–NYSE–90–52 and SR–NYSE–90–53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) (''1979 Release'').

[220] Responses to the Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM or Complex SOM represent non-firm interest that can be canceled or modified at any time prior to execution. *See* Options 3, Section 11 in the introductory paragraph. Therefore, for these auctions, a member may not cancel or modify an order entered into the Block Order Mechanism, a Facilitation Order or a Solicited Order after it has been submitted into the respective auction. The Commission has stated that the nonparticipation requirement does not preclude members from cancelling or modifying orders, or from modifying instructions for executing orders, after they have been transmitted so long as the modifications or cancellations are also transmitted from off the floor. *See* Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542, 11547 (the ''1978 Release'').

[221] *See id.*

Complex SOM are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.[222] The Exchange represents that the Block Order Mechanism, Facilitation Mechanism, Complex Facilitation Mechanism, SOM, or Complex SOM are designed so that no member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the applicable auction mechanism.

Rule 11a2–2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2–2(T) thereunder.[223] The Exchange recognizes that members relying on Rule 11a2–2(T) for transactions effected pursuant to the proposed auction rules, and in particular through the applicable auction mechanisms described above, must comply with this condition of the rule and the Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange therefore believes that the proposed rules in Options 3, Section 11 governing the Block Order Mechanism, the Facilitation Mechanism, the Complex Facilitation Mechanism, SOM, and Complex SOM, are consistent with Rule 11a2–2(T).

Other Rule Changes

The Exchange's proposal to amend Options 3, Section 7(g) to state that ''Market Makers may not enter a Reserve Order pursuant to Options 2, Section 6'' is a non-substantive change. Options 2, Section 6 restricts a Market Maker from entering a Reserve Order. This amendment is non-substantive. The Exchange is reiterating the restriction in Options 3, Section 7(g) solely to bring additional transparency to the restrictions regarding Market Makers. ISE has an identical sentence in Options 3, Section 7(g). Additionally, the Exchange proposes to add the following sentence to new Supplementary Material .02 to Options 3, Section 22 with respect to Reserve Orders, ''With respect to the non-displayed reserve portion of a Reserve Order, the exposure requirement of paragraphs (b) and (c) are satisfied if the displayable portion of the Reserve Order is displayed at its displayable price for one second.'' This sentence is identical to ISE Supplementary Material .02 to Options 3, Section 22 and would make clear the exposure obligation for a Reserve Order.

The Exchange's proposal to amend Supplementary Material .03 to Options 3, Section 7, regarding the SQF Protocol,[224] to note that an Immediate-or-Cancel or ''IOC'' Order entered by a Market Maker through SQF will not be subject to the Complex Order Price Protection as defined in Options 3, Section 16(c)(1) is consistent with the Act. The Exchange recently added the same language to Supplementary Material .02(d) to Options 3, Section 7 in describing an IOC Order.[225] The Exchange proposes to add the same language to Supplementary Material .03 to Options 3, Section 7 for greater transparency. ISE Supplementary Material .03 to Options 3, Section 7 has identical rule text.

The Exchange's proposal to amend the Acceptable Trade Range at Options 3, Section 15(b)(1)(B) to clarify a member's ability to have interest returned if their quote or order would post at the outer limit of the Acceptable Trade Range is a non-substantive amendment. The Exchange is amending this rule text so that it aligns with ISE Options 3, Section 15(a)(2)(A)(iii). The revised language is intended to clarify that the interest posting at the outer limit of the Acceptable Trade Range would trigger the return of that interest.

The Exchange's proposal to remove the following sentence, ''If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price'' that the Exchange inadvertently failed to remove in SR–Phlx–2024–71 is consistent with the Act. The Exchange noted in SR–Phlx–2024–71 that it proposed to amend to amend Phlx Options 5, Section 4(a)(iii)(B)(5) to remove sentences that were relocated to Phlx Options 5, Section 4(a)(iii)(B)(2) as noted above.[226] The Exchange should have removed the aforementioned sentence which is covered by Phlx Options 5, Section 4(a)(iii)(B)(2) and does appear in ISE Options 5, Section 4(a)(iii)(B)(5). The Exchange notes in SR–Phlx–2024–71 that it was harmonizing Options 5, Section 4 to ISE Options 5, Section 4. The proposed sentence that is to be removed is represented in Phlx Options 5, Section 4(a)(iii)(B)(2). The removal of this sentence will make Phlx Options 5, Section 4(a)(iii)(B)(5) identical to ISE Options 5, Section 4(a)(iii)(B)(5) as intended by SR–Phlx–2024–71. The Exchange also proposes a technical amendment to remove a stray word, ''including,'' at the end of Options 5, Section 4(a)(iii)(C)(8) that was inadvertently not removed in SR–Phlx–2024–71.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, the Exchange is re-platforming its System in connection with the technology migration to enhanced Nasdaq functionality, which the Exchange believes would promote competition among options exchanges by potentially attracting additional order flow to the Exchange with the enhanced trading platform. The basis for the majority of the proposed rule changes are the rules of the Nasdaq affiliated options exchanges, which have been previously filed with the Commission as consistent with the Act.

[222] In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2–2(T). *See* 1979 Release.

[223] *See* 17 CFR 240.11a2–2(T)(a)(2)(iv). In addition, Rule 11a2–2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such transactions. *See also* 1978 Release, at 11548 (stating ''[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests'').

[224] *See supra* note 3.

[225] Immediate-or-Cancel. An order entered with a TIF of ''IOC'' that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. *See* Supplementary Material .02(d) to Options 3, Section 7.

[226] *See* Securities Exchange Act Release No. 101989 (December 30, 2024), 89 FR 106888 at 106911 (December 30, 2024) (SR–Phlx–2024–71).

Options 2, Section 10

The Exchange's proposal to amend Options 2, Section 10(a)(iii) to add the words ''the internal PBBO or'' before NBBO, similar to Options 2, Section 10(a)(ii) does not impose an undue burden on competition because the amendment conforms the rule text with references to the internal PBBO and NBBO. The Exchange's amendment will add clarity to current rule text.

Options 3, Section 11

The proposed auctions in Options 3, Section 11 will impose any burden on intramarket competition.

As it relates to the proposed Block Order Mechanism, the proposed functionality is designed to increase competition for order flow on the Exchange in a manner intended to be beneficial to investors seeking to effect block-sized orders with an opportunity to access additional liquidity and potentially receive price improvement. The Exchange will offer this mechanism to all members, and use of the proposed functionality will be completely voluntary.

As it relates to the proposed Facilitation Mechanism and SOM, the proposed functionality is designed to increase competition in the auctions, provide more options contracts with price improvement, and incentivize market participants to initiate more auctions, particularly given the auto-match feature. Increases in the number of auctions initiated on the Exchange using these mechanisms will directly correlate with an increase in the number of agency orders that are provided with the opportunity to receive price improvement over the NBBO. The Exchange believes this interaction of orders will benefit investors by increasing the opportunity for options orders to receive executions.

As it relates to inter-market competition, the Exchange notes that these proposed rules are identical to ISE Options 3, Section 11 rules, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. The Exchange anticipates that the proposed Block Order Mechanism, the Facilitation Mechanism and the SOM will create new opportunities for the Exchange to attract new business and compete on an equal footing with other options exchanges with similar auctions. The Exchange also notes that market participants on other exchanges are welcome to become participants on the Exchange if they determine if this proposed rule change has made Phlx a more attractive or favorable venue.

Options 3, Section 12

The proposed auctions in Options 3, Section 12 as well as Options 8, Section 30, will impose any burden on intramarket competition.

As it relates to the proposed Customer Cross Orders and Complex Customer Cross Orders, the Exchange believes that market participants will continue to enter and execute paired Public Customer Orders automatically outside of a PIXL Auction. All members may utilize this functionality which is completely voluntary.

As it related to the proposed QCC Orders and Complex QCC Orders, the Exchange believes that market participants will continue to enter and execute these order types on Phlx. All Phlx members will be uniformly required to enter Complex QCC Orders in one cent ($0.01) increments as well as the options leg of Complex Options Strategies. All members may utilize this functionality which is completely voluntary.

As it relates to inter-market competition, the Exchange notes that these proposed rules are identical to ISE Options 3, Section 2 rules, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. The Exchange anticipates that the proposed Customer Cross Orders, Complex Customer Cross Orders, QCC Orders and Complex QCC Orders will continue to attract order flow to Phlx and allow it to compete on an equal footing with other options exchanges with similar functionality.

Options 3, Section 13

The proposed PIXL Auction in Options 3, Section 13 will impose any burden on intramarket competition.

All members may continue to utilize the proposed PIXL Auction which is completely voluntary for an opportunity to receive price improvement.

As it relates to inter-market competition, the Exchange notes that the proposed amendments are substantially similar to ISE Options 3, Section 13 rule text, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges. The Exchange anticipates that the proposed PIXL Auction will continue to attract order flow to Phlx and allow it to compete on an equal footing with other options exchanges with similar functionality.

Options 3, Section 22

The Exchange's proposal to amend Options 3, Section 22 to account for the new auction mechanisms that are exceptions to the order requirements and add new Supplementary Material .01 and .03 to require exposure, prohibit circumvention of information barriers and prevent leakage of information about certain orders do not impose any burden on intramarket competition, rather the requirements promote just and equitable principals of trade.

The Exchange's proposal to amend Options 3, Section 22 to account for the new auction mechanisms that are exceptions to the order requirements and add new Supplementary Material .01 and .03 to require exposure, prohibit circumvention of information barriers and prevent leakage of information about certain orders do not impose any burden on intermarket competition as all exchanges subject their members to similar rules. ISE has identical rules at Options 3, Section 22.

Corresponding Changes to Options Rules

The proposed amendments to Options 3, Sections 7, 10, 14, 16 and 22 do not impose any burden on intramarket competition. All members are subject to the proposed amendments at Options 3, Sections 7, 10, 14, 16 and 22.

As it relates to inter-market competition, the Exchange notes that the proposed amendments to Options 3, Sections 7, 10, 14, 16 and 22 are identical to ISE rule text, which have been previously filed with the Commission, and therefore promotes fair competition among the options exchanges.

The Exchange's proposal to remove the following sentence, ''If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price'' that the Exchange inadvertently failed to remove in SR–Phlx–2024–71 does not impose any burden on intramarket competition as the sentence is represented in Phlx Options 5, Section 4(a)(iii)(B)(2). The removal of this sentence will make Phlx Options 5, Section 4(a)(iii)(B)(5) identical to ISE Options 5, Section 4(a)(iii)(B)(5) as intended by SR–Phlx–2024–71.

The Exchange's proposal to remove the following sentence, ''If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price'' that the

Exchange inadvertently failed to remove in SR–Phlx–2024–71 does not impose any burden on intermarket competition as ISE has identical rule text. The Exchange's proposal to remove a stray word, ''including,'' at the end of Options 5, Section 4(a)(iii)(C)(8) is a non-substantive amendment.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act [227] and subparagraph (f)(6) of Rule 19b-4 thereunder.[228]

[227] 15 U.S.C. 78s(b)(3)(A)(iii).

[228] 17 CFR 240.19b–4(f)(6). In addition, Rule 19b–4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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

IV. Solicitation of Comments

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

Electronic Comments

• Use the Commission's internet comment form (*http://www.sec.gov/rules/sro.shtml*); or

• Send an email *to rule-comments@sec.gov*. Please include File Number SR–Phlx–2025–35 on the subject line.

Paper Comments

• Send paper comments in triplicate to Vanessa Countryman, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549–1090.

All submissions should refer to file number SR–Phlx–2025–35. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (*https://www.sec.gov/rules/sro.shtml*). Copies of the filing will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection.

All submissions should refer to file number SR–Phlx–2025–35 and should be submitted on or before September 3, 2025.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[229]

J. Matthew DeLesDernier,

Deputy Secretary.

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[229] 17 CFR 200.30–3(a)(12).