

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³⁸ and Rule 19b-4(f)(6)³⁹ thereunder. 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) of the Act⁴⁰ and Rule 19b-4(f)(6)⁴¹ thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)⁴² normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),⁴³ the Commission may designate a shorter time if such action is consistent with protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative upon filing. The Exchange's proposal does not raise any new or novel issues. Therefore, the Commission believes that waving the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission designates the proposed rule change to be operative on upon filing.⁴⁴

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 will institute proceedings to determine whether the proposed rule

change should be approved or disapproved.

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 Act⁴⁵ and subparagraph (f)(6) of Rule 19b-4 thereunder.⁴⁶

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-ISE-2021-14 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. All submissions should refer to File Number SR-ISE-2021-14. 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 (<http://www.sec.gov/rules/sro.shtml>). Copies of the

submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2021-14 and should be submitted on or before July 19, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁷

J. Matthew DeLesDernier,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-92231; File No. SR-Phlx-2021-37]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Exchange's Pricing Schedule at Equity 7, Section 3

June 22, 2021

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 11, 2021, 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

³⁸ 15 U.S.C. 78(b)(3)(A).

³⁹ 17 CFR 240.19b-4(f)(6).

⁴⁰ 15 U.S.C. 78s(b)(3)(A).

⁴¹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

⁴² 17 CFR 240.19b-4(f)(6).

⁴³ 17 CFR 240.19b-4(f)(6).

⁴⁴ For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁴⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴⁶ 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.

⁴⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend the Exchange's pricing schedule at Equity 7, Section 3, as described further below. The text of the proposed rule change is available on the Exchange's website at <https://listingcenter.nasdaq.com/rulebook/phlx/rules>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

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

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

1. Purpose

The Exchange proposes to amend its pricing schedule, at Equity 7, Section 3, to adopt a new \$0.0033 per share executed credit for member organizations that provide displayed liquidity to the Exchange and receive an execution priced at or between \$1.00 and \$5.00. The Exchange proposes to add this new credit and target it at securities executed at prices between \$1.00 and \$5.00 because the Exchange observes that, at present, liquidity in securities in this lower price segment is less robust on the Exchange than it is in other price segments.³ The Exchange hopes that the proposed credit will encourage member organizations to increase the extent to which they quote or place orders on the Exchange for securities priced at or between \$1.00 and \$5.00. If the proposal is effective in achieving this purpose, then the quality of the Exchange's market will improve, to the benefit of all participants.⁴

³ The Exchange notes that the threshold for prices at or below \$5.00 tracks the SEC's definition of a "penny stock." See 17 CFR 240.3a5-1-1.

⁴ Although there may be value in offering credits to members that provide liquidity in securities executed at other prices, or that satisfy other

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁵ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,⁶ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Proposal Is Reasonable and Is an Equitable Allocation of Credits

The Exchange's proposed change to its schedule of credits is reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for equity securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: "[n]o one disputes that competition for order flow is 'fierce.' . . . As the SEC explained, '[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution'; [and] 'no exchange can afford to take its market share percentages for granted' because 'no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers'"⁷

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system "has been remarkably successful in promoting market competition in its

criteria, the Exchange has limited resources available to it to offer its members market-improving incentives, and it allocates those limited resources to those segments of the market where it perceives the need to be greatest and/or where it determines that the incentive is likely to achieve its intended objective.

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(4) and (5).

⁷ *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

broader forms that are most important to investors and listed companies."⁸

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for equity security transaction services. The Exchange is only one of several equity venues to which market participants may direct their order flow.

Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules.⁹ Within the foregoing context, the proposal represents a reasonable attempt by the Exchange to increase its market share relative to its competitors.

The Exchange believes that it is reasonable and equitable to adopt a new \$0.0033 per share executed credit for member organizations that provide displayed liquidity in securities that execute at prices at or between \$1.00 and \$5.00 per share. As discussed above, the Exchange observes a particular need to increase displayed liquidity in securities at these prices because liquidity on the Exchange in such lower priced securities is less robust than it is in other market segments. It is reasonable and equitable to address this need by allocating its limited resources to offer member organizations a credit to incent them to provide the liquidity needed. If the proposal is effective in achieving this purpose, then the quality of the Exchange's market will improve, to the benefit of all participants.

The Proposal Is Not Unfairly Discriminatory

The Exchange believes that the proposal is not unfairly discriminatory. The Exchange intends for its proposal to increase displayed liquidity in securities executed at or between \$1.00 and \$5.00 per share, where the Exchange observes that liquidity in such lower securities is less robust than it is in other market segments. Additional liquidity is needed for the Exchange to maintain and improve its market quality. Although member organizations that are able to provide liquidity in such securities are likely to benefit directly

⁸ Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) ("Regulation NMS Adopting Release").

⁹ The Exchange perceives no regulatory, structural, or cost impediments to market participants shifting order flow away from it. In particular, the Exchange notes that such shifts in liquidity and market share occur within the context of market participants' existing duties of Best Execution and obligations under the Order Protection Rule under Regulation NMS.

from this proposal, any improvement in market quality that it facilitates will ultimately benefit all market participants.

Although there may be value in offering credits to members that provide liquidity in securities executed at other prices, or that satisfy other criteria, the Exchange has limited resources available to it to offer its members market-improving incentives, and it allocates those limited resources to those segments of the market where it perceives the need to be greatest and/or where it determines that the incentive is likely to achieve its intended objective.

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.

Intramarket Competition

The Exchange does not believe that its proposal will place any category of Exchange participants at a competitive disadvantage. As noted above, all member organizations of the Exchange will benefit from an increase in the addition of liquidity in securities priced at or between \$1.00 and \$5.00. Moreover, member organizations are free to trade on other venues to the extent they believe that the credit provided is not attractive. As one can observe by looking at any market share chart, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes.

Intermarket Competition

The Exchange believes that its proposed new credit will not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from the other live exchanges and from off-exchange venues, which include alternative trading systems that trade national market system stock. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards

applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

The proposed credit for adding liquidity is reflective of this competition because, as a threshold issue, the Exchange is a relatively small market so its ability to burden intermarket competition is limited. In this regard, even the largest U.S. equities exchange by volume only has 17–18% market share, which in most markets could hardly be categorized as having enough market power to burden competition. Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. This is in addition to free flow of order flow to and among off-exchange venues which comprises more than 40% of industry volume in recent months.

In sum, the Exchange intends for the proposed credit to incent member organizations to add displayed liquidity to the Exchange in securities within a certain price range, and to thereby contribute to market quality, which is reflective of fierce competition for order flow noted above; however, if the proposed credit is unattractive to market participants, it is likely that the Exchange will either fail to increase its market share or even lose market share as a result. Accordingly, the Exchange does not believe that the proposed new credit will impair the ability of member organizations or competing order execution venues to maintain their competitive standing in the financial markets.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.¹⁰

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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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-2021-37 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-Phlx-2021-37. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File

¹⁰ 15 U.S.C. 78s(b)(3)(A)(ii).

Number SR-Phlx-2021-37 and should be submitted on or before July 19, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

J. Matthew DeLesDernier,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-92227; File No. SR-GEMX-2021-05]

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Options 2, Section 4 (Obligations of Market Makers)

June 22, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 9, 2021, Nasdaq GEMX, LLC (“GEMX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Options 2, Section 4, Obligations of Market Makers. The Exchange also proposes to add a new Options 4C.

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

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

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

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

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

1. Purpose

The Exchange proposes to amend Options 2, Section 4, Obligations of Market Makers. The Exchange also proposes to add a new Options 4C.

Options 2, Section 4(a)

The Exchange proposes to remove the following rule text from Options 2, Section 4(a), which has been in place since GEMX’s inception:³

... Ordinarily, Market Makers are expected to:

(1) Refrain from purchasing a call option or a put option at a price more than \$0.25 below parity, although a larger amount may be appropriate considering the particular market conditions. In the case of calls, parity is measured by the bid in the underlying security, and in the case of puts, parity is measured by the offer in the underlying security.

(2) The \$0.25 amount above may be increased, or the provisions of this Rule may be waived, by the Exchange on a series-by-series basis. This proposed rule text also previously existed on Cboe Exchange, Inc. within prior Rule 8.7⁴ and was removed from Cboe’s Rulebook in 2019.⁵ The Exchange likewise desires to remove this restriction on Market Makers which does not exist on Cboe or other Nasdaq affiliated

⁴ Prior Interpretation and Policy .02 to Rule 8.7 provided, “Market-Makers are expected ordinarily to refrain from purchasing a call option or a put option at a price more than \$0.25 below parity, although a larger amount may be appropriate considering the particular market conditions. In the case of calls, parity is measured by the bid in the underlying security, and in the case of puts, parity is measured by the offer in the underlying security. The \$0.25 amount above may be increased, or the provisions of this Interpretation may be waived, by the Exchange on a series-by-series basis.”

⁵ Cboe’s rule change merely noted, with respect to the removal of Cboe’s parity rule, that the filing makes non-substantive changes to the rule governing a Market-Maker’s general obligations (current Rule 8.7, in part), most of which remove redundant provisions that are already covered under the umbrella of a Market-Maker’s obligation to engage in dealing to maintain fair and orderly markets. No specific argument is provided with respect to removing this provision. See Securities Exchange Act 87024 (September 19, 2019), 84 FR 50545 (September 25, 2019) (SR-CBOE-2019-059) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Certain Rules Relating To Market-Makers Upon Migration to the Trading System Used by Cboe Affiliated Exchanges).

markets.⁶ The proposed rule text is currently waived on GEMX pursuant to Options 2, Section 4(a)(2). The Exchange proposes to remove this rule text from Options 2, Section 4 as the Exchange does not desire to enforce this provision in the future. The Exchange believes that this market maker provision is no longer necessary. Today, GEMX incentivizes Market Makers through allocation⁷ to quote tightly in their assigned options series. Primary Market Makers and Competitive Market Makers also have other obligations with respect to market making⁸ in addition to other quoting obligations⁹ that they must abide by when quoting on GEMX. Also, since the adoption of the rule, the Exchange has adopted the obvious error rule¹⁰ which permits the Exchange to review a transaction as potentially erroneous based on a theoretical price. Also, GEMX orders are subject to trade-through compliance, thereby limiting the prices at which orders may execute.¹¹ Market Makers are relied upon to provide liquidity on GEMX, which benefits other Members who have the opportunity to interact with the order flow. The Exchange believes that the obligation to refrain from purchasing a call option or a put option at a price more than \$0.25 below parity places yet another obligation on GEMX Market Makers that is not required on Cboe or other Nasdaq markets. The Exchange believes that this additional obligation is not necessary to maintain fair and orderly markets and notes the Exchange has waived this obligation.

Bid/Ask Differentials

The Exchange proposes to amend Options 2, Section 4(b)(4) and Options 4A, Section 12(b)(i) to centralize the bid/ask differentials. Specifically, the Exchange proposes to state within new Options 2, Section 4(b)(4)(iii) that,

⁶ See Nasdaq Phlx LLC, The Nasdaq Options Market LLC and Nasdaq BX, Inc. at Options 2, Section 4 (Obligations of Market Makers).

⁷ See Options 3, Section 10 (Priority of Quotes and Orders). Primary Market Makers are offered an enhanced allocation provided the Primary Market Maker is quoting at same price as a non-Priority Customer Order or Market Maker quote.

⁸ See Options 2, Section 4. GEMX Market Makers must for example: (1) Compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed; (2) make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange’s System in all series of options classes to which the Market Maker is appointed; (3) update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed; and (4) price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. See Options 2, Section 4(b).

⁹ See Options 2, Section 5 (Electronic Market Maker Obligations and Quoting Requirements). Further, Options 3, Section 8(c)(3) requires Primary Market Makers to submit a Valid Width Quote during the Opening Process.

¹⁰ See Options 3, Section 20 (Nullification and Adjustment of Options Transactions including Obvious Errors).

¹¹ See Options 3, Section 4(b)(6).

¹¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 70050 (July 26, 2013), 78 FR 46622 (August 1, 2013) (Application of Topaz Exchange, LLC for Registration as a National Securities Exchange; Findings, Opinion, and Order of the Commission).