



## M E M O R A N D U M

TO: Floor Brokers and Floor Market Makers

FROM: Nasdaq Phlx Floor Surveillance

DATE: April 5, 2024

RE: Firm Participation Guarantees

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This memo is intended to provide guidance to Phlx Floor Brokers and Floor Market Makers who transact business in open outcry on the Phlx trading floor regarding firm participation guarantees on ratio spreads as governed by Phlx Options 8, Section 30, Crossing, Facilitation, and Solicited Orders.

**Firm Participation Guarantees are provided in Supplementary Material .02 to Options 8, Section 30**

- (i) Notwithstanding the provisions of paragraphs (a) and (b) of this Rule, when a Floor Broker holds an equity, index or U.S. dollar-settled foreign currency option order of the eligible order size or greater ("original order"), the Floor Broker is entitled to cross a certain percentage of the original order with other orders that he is holding or in the case of a public customer order, with a facilitation order of the originating firm (i.e., the firm from which the original customer order originated).
- (ii) The Exchange may determine, on an option-by-option basis, the eligible size for an order that may be transacted pursuant to this Commentary, however, the eligible order size may not be less than 50 contracts. Orders for less than 50 contracts may be crossed pursuant to this Rule but are not subject to subsection (iii) below pertaining to participation guarantees. In accordance with his responsibilities for due diligence, a Floor Broker representing an order of the eligible order size or greater which he wishes to cross shall request bids and offers for such option series and make all persons in the trading crowd aware of his request. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg alone which is for the eligible order size or greater. If the same member organization is the originating firm and also the specialist for the particular class of options to which the order relates, then the specialist is not entitled to any Enhanced Specialist Participation with respect to the particular cross transaction.
- (iii) The percentage of the order which a Floor Broker is entitled to cross in equity, index and U.S dollar settled foreign currency options, after all Public Customer orders that were (1) on the limit order book and then (2) represented in the trading crowd at the time the market was established have been satisfied, is 40% of the remaining contracts in the order



if the order is traded at or between the best bid or offer given by the crowd in response to the Floor Broker's initial request for a market.

As the aforementioned rule specifies, 50 or more contracts entitles a firm to 40% of the cross. The remaining size will be allocated first to all Public Customers, if applicable, and then to trading crowd participants who established a market at the time the cross was represented.

Below are specific examples of ratio spreads (complex orders) and eligibility for firm participation guarantees described in Supplementary Material .02 to Options 8, Section 30.

**Example 1 (Eligible For Firm Participation Guarantee)**

A Phlx Floor Broker is holding the following cross for a ratio spread complex order buying 25 XYZ January (1/17/2025) 20 calls and selling 50 XYZ January (1/17/2025) 25 calls.

In this scenario, the firm would be entitled to the firm participation guarantee on both legs of the complex order spread because the XYZ January (1/17/2025) 25 call leg meets the minimum eligible size requirement of 50 or more contracts.

**Example 2 (Not Eligible For Firm Participation Guarantee)**

A Phlx Floor Broker is holding the following cross for a ratio spread complex order buying 25 XYZ January (1/17/2025) 20 calls and selling 40 XYZ January (1/17/2025) 25 calls.

In this scenario, the firm would **NOT** be entitled to the firm participation guarantee of the spread because neither leg of the spread meets the minimum eligible size requirement of 50 or more contracts.

In the case of ratio spreads (complex orders) consisting of more than two legs, the firm would be entitled to the firm participation guarantee as long as one leg of the complex order meets the minimum size requirement of 50 or more contracts.

If you have any questions regarding the above, please contact Michael Blackson of Phlx Floor Surveillance at 215-496-5295.