

MEMORANDUM

TO: Nasdaq Phlx Trading Floor
FROM: Nasdaq Phlx
DATE: February 12, 2024
RE: Nasdaq Phlx Options 3, Section 22(c) and (d)

Nasdaq Phlx (“Phlx”) reminds members and member organizations who transact business in open outcry on Phlx’s trading floor of the manner of bidding and offering specified in Options 8, Section 22(c) and (d).

- Bids and offers must be made in an audible tone of voice.
- Members shall be considered “in” on a bid or offer, while the member remains at the post, unless the member shall distinctly and audibly say “out.”
- Members bidding and offering in immediate and rapid succession shall be deemed “in” until the member says “out” on either bid or offer.
- Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term “significant change” will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.
- With respect to using the Options Floor Based Management System (“FBMS”) to execute an order pursuant to Option 8, Section 22, a member must audibly say “out” before the order is submitted into the FBMS for execution and, if the order is not executed, the member must audibly say “out” before each time the member resubmits the order for execution.

Below are some open outcry trading scenarios and the application of Options 8, Section 22(c) and (d) to those scenarios that will provide guidance and prevent any type of anti-competitive activity. This guidance is intended to promote fair and equitable trading between Floor Brokers and market-makers.

Trading Crowd Scenario – No. 1

- The Floor Broker enters the trading crowd soliciting an offer from Floor Market Makers.
- The Floor Broker announces, “I am looking to cross 2000 XYZ January 20 calls for \$0.24 bid.”
- 2 of the 3 Floor Market Makers present in the trading crowd respond, “They would sell 10% each at \$0.24”.
- The Floor Broker informs his/her floor broker booth of the Floor Market Makers interest.
- The floor broker booth clerk informs the Floor Broker to give up the 20% and cross the balance.
- As the Floor Broker is about to provisionally execute 20% of the cross against the Floor Market Makers offers, the Floor Market Makers indicates that they are out of their \$0.24 offers.
- The floor booth and Floor Broker tell the Floor Market Makers that they already told their customer that they gave up 20% of the cross.
- The Floor Market Makers inform the Floor Broker that he/she did not provisionally trade against their \$0.24 offers yet.
- The Floor Broker provisionally executes the cross by announcing \$0.24 bid for 2000 @ \$0.25 sold.
- The Floor Market Makers request a ruling on the matter.

In this case the Floor Market Makers clearly announced they were out of their \$0.24 offers prior the Floor Broker provisionally executing the cross. The Floor Market Maker would not be held to this trade because the offer was provisional and ample time was provided for a response from the Floor Broker who delayed in executing on the offer.

Trading Crowd Scenario – No. 2

- The Floor Broker enters the trading crowd soliciting for an offer from the Floor Market Makers.
- The Floor Broker announces, “I am looking cross 2000 XYZ January 20 calls for \$0.24 bid.”
- 2 of the 3 Floor Market Makers present in the trading crowd respond, “They would sell 10% each at \$0.24”.
- The Floor Broker informs his floor broker booth of the Floor Market Makers interest.
- The floor broker booth clerk informs the Floor Broker to give up the 20% and cross the balance.
- The Floor Broker provisionally trades and allocates 20% of the cross to the Floor Market Makers offers and crosses the balance of the order.
- **Without delay**, the Floor Broker immediately attempts to submit the cross through FBMS and one of the Floor Market Makers announces that they are “out” of the \$0.24 offer prior to the Floor Broker hitting the execute button.
- The Floor Broker enters the trade into FBMS, and the trade is posted to the tape.
- The Floor Broker requests a ruling on the matter.

In this case the Floor Market Maker is still held to 10% of the trade because the Floor Broker was not provided a reasonable amount of time to report the trade into FBMS and was diligent in reporting the trade to the consolidated tape. Also, the trade was not rejected by the FBMS and there was no additional communication with this floor broker booth.

Trading Crowd Scenario – No. 3

- The Floor Broker enters the trading soliciting for an offer from the Floor Market Makers.
- The Floor Broker announces, “I am looking cross a spread buying 2000 XYZ January 20 calls and selling 2000 XYZ January 25 calls. \$0.24 bid.”
- 3 Floor Market Makers present in the trading crowd respond with no interest.
- The Floor Broker informs his floor broker booth of the Floor Market Makers having no interest.
- The floor broker booth clerk informs the Floor Broker to cross the order.
- The Floor Broker provisionally crosses the trade.
- As the Floor Broker is attempting to determine the correct price of the trade, a Floor Market Maker responds that he would sell 20 @ \$0.24.
- The Floor Broker responds that he already ready crossed the order and is trying to align the prices because the electronic markets are extremely wide.
- The trade was not yet submitted into FBMS.
- The Floor Broker requests a ruling on the matter.

The Floor Broker did not immediately report the trade and determined that the Floor Market Maker was entitled to 20% of the trade; the price of the legs should have been determined prior to provisionally executing the trade.

Trading Crowd Scenario – No. 4

- The Floor Broker enters the trading crowd soliciting for an offer from the Floor Market Makers.
- The Floor Broker announces, “I am looking cross 2000 XYZ January 20 calls for \$0.24 bid versus \$22.01 stock on a 54 delta.”
- 2 of the 3 Floor Market Makers present in the trading crowd respond, “They would sell 10% each at \$0.24.”
- The Floor Broker informs his floor broker booth of the Floor Market Makers interest.
- The floor broker booth clerk informs the Floor Broker to give up the 20% and cross the balance.
- The Floor Broker provisionally trades and allocates 20% of the cross to the Floor Market Makers’ offers and provisionally crosses the balance of the order.
- The Floor Broker leaves the trading crowd providing no indication on when the trade would be reported.
- One of the Floor Market Makers allocated 10% of the stock tied trade when the trade had not yet been reported to the tape.
- Floor Surveillance request an update from the Floor Broker who stated, “They are waiting for confirmation on the stock”.
- Floor Surveillance informed the Floor Broker of the Floor Market Maker inquiring about his participation on the stock tied trade.
- The Floor Broker still provided no indication on when the trade would be reported and allocated to the Floor Market Makers.
- The Floor Market Maker requested be out of his 10% allocation.

Due to the Floor Broker not using due diligence to report the trade to the consolidated tape, the Floor Market Maker may exit the trade.