

period.<sup>163</sup> In response, FICC states that inclusion of that data is not necessary because the Impact Study's two-year period achieves the purpose of demonstrating the effectiveness of the proposed MMA during periods of both low and high market volatility.<sup>164</sup> The Commission agrees that the Impact Study's two-year period sufficiently demonstrates the performance of the proposed MMA during periods of both low and high market volatility, as the two-year study period also included periods of both low and high market volatility. Inclusion of March 2020 in the Impact Study is not required for the Commission to evaluate the responsiveness of the MMA.

Accordingly, the Proposed Rule Change is consistent with Rule 17Ad-22(e)(6)(i) because the new MMA margin calculation and Margin Proxy clarifications should better enable FICC to establish a risk-based margin system that considers and produces relevant margin levels commensurate with the risks associated with liquidating participant portfolios in a default scenario during periods of extreme market volatility.<sup>165</sup>

#### *E. Consistency With Rule 17Ad-22(e)(23)(ii)*

Rule 17Ad-22(e)(23)(ii) requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in FICC.<sup>166</sup>

One commenter states that the Proposed Rule Change lacks transparency, quick implementation, and tools and resources to support market preparedness to identify risks and costs associated with how FICC calculates margin amounts.<sup>167</sup> Specifically, the commenter urges FICC to provide members with (1) daily VaR calculations, (2) an MMA calculator, and (3) a phased implementation of the MMA, including a parallel run period where the MMA is calculated but not invoked.<sup>168</sup>

In response, FICC states that it provides tools and resources to enable members to determine their margin requirements and the impact of FICC's proposals.<sup>169</sup> Specifically, FICC maintains the Real Time Matching

Report Center, Clearing Fund Management System, FICC Customer Reporting Service, and FICC Risk Client Portal which are client accessible websites for accessing risk reports and other risk disclosures.<sup>170</sup> These resources enable members to view Clearing Fund requirement information and margin component details, including portfolio breakdowns by CUSIP and amounts attributable to the sensitivity-based VaR model.<sup>171</sup> Members are also able to view data on market amounts for current clearing positions and associated VaR Charges.<sup>172</sup> Additionally, the FICC Client Calculator enables members to, among other things, enter "what-if" position data to determine hypothetical VaR Charges before trade execution. FICC states that as of June 24, 2024, FICC is in the process of enhancing the FICC Client Calculator to incorporate the MMA and FICC expects the enhancement to be available to members prior to implementation of the MMA, subject to the Commission's approval.<sup>173</sup> FICC also states that it is currently developing a tool that would enable non-members to assess potential VaR Charges (including MMA) as well.<sup>174</sup>

The extensive tools and resources that FICC makes available to members should enable members to obtain individualized information to determine their Clearing Fund requirements, margin component details, and assess the impact of FICC's proposals. Additionally, FICC's multiple member outreach efforts (before and after development of the Proposed Rule Change) provided members with relevant individualized impact analyses with which to evaluate the Proposed Rule Change. Accordingly, FICC has provided tools and resources sufficient for its members to evaluate their daily VaR and other margin-related calculations, rendering a phased implementation of the proposed MMA unwarranted.

Based on the foregoing, FICC has provided sufficient information, tools, and resources to enable members to identify and evaluate the relevant risks and costs associated with the Proposed Rule Change, consistent with Rule 17Ad-22(e)(23)(ii).<sup>175</sup>

### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>176</sup> and the rules and regulations promulgated thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act<sup>177</sup> that proposed rule change SR-FICC-2024-003, be, and hereby is, *approved*.<sup>178</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>179</sup>

**Sherry R. Haywood**,  
*Assistant Secretary*.

[FR Doc. 2024-26531 Filed 11-13-24; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-101543; File No. SR-Phlx-2024-50]

### Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Lower the Current Options Regulatory Fee (ORF) and Adopt a New Approach to ORF in 2025

November 7, 2024.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 31, 2024, Nasdaq PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II 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 Phlx's Pricing Schedule at Options 7, Section 6D, Options Regulatory Fee.

While the changes proposed herein are effective upon filing, the Exchange

<sup>176</sup> 15 U.S.C. 78q-1.

<sup>177</sup> 15 U.S.C. 78s(b)(2).

<sup>178</sup> In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f). See also Sections II.A. and II.B.

<sup>179</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>163</sup> See SIFMA Letter at 6.

<sup>164</sup> See FICC Letter at 6.

<sup>165</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>166</sup> 17 CFR 240.17Ad-22(e)(23)(ii).

<sup>167</sup> See SIFMA Letter at 7-8.

<sup>168</sup> See *id.*

<sup>169</sup> See FICC Letter at 7.

<sup>170</sup> See *id.*

<sup>171</sup> See *id.*

<sup>172</sup> See *id.*

<sup>173</sup> See *id.*

<sup>174</sup> See *id.*

<sup>175</sup> 17 CFR 240.17Ad-22(e)(23)(iii).

has designated certain amendments to be operative on November 1, 2024, and other amendments to be operative on January 1, 2025, as noted in the Exhibit 5 and herein.

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

Phlx proposes to amend its current ORF in several respects. In summary, first, Phlx proposes to reduce its ORF from \$0.0034 to \$0.0022 per contract side from November 1, 2024, through December 31, 2024. Second, as of January 1, 2025, Phlx proposes to amend its methodology of collection to: (1) specify that it is including options transactions in Phlx proprietary products; and (2) assess ORF in all clearing ranges except market makers who clear as "M" at The Options Clearing Corporation ("OCC"). Additionally, Phlx will assess a different rate for trades executed on Phlx ("Local ORF Rate") and trades executed on non-Phlx exchanges ("Away ORF Rate"). Each change will be described below in greater detail.

#### Background on Current ORF

Today, Phlx assesses its ORF for each Customer<sup>3</sup> option transaction that is either: (1) executed by a member organization<sup>4</sup> on Phlx; or (2) cleared by

<sup>3</sup> Today, ORF is collected from Customers, Professionals and broker-dealers that are not affiliated with a clearing member that clear in the "C" range at OCC. See *supra* notes 18 and 19 for descriptions of Customers and Professionals.

<sup>4</sup> The term "member organization" means a corporation, partnership (general or limited), limited liability partnership, limited liability company, business trust or similar organization,

a Phlx member organization at OCC in the Customer range,<sup>5</sup> even if the transaction was executed by a non-member organization of Phlx, regardless of the exchange on which the transaction occurs.<sup>6</sup> If the OCC clearing member is a Phlx member organization, ORF is assessed and collected on all ultimately cleared Customer contracts (after adjustment for CMTA<sup>7</sup>); and (2) if the OCC clearing member is not a Phlx member organization, ORF is collected only on the cleared Customer contracts executed at Phlx, taking into account any CMTA instructions which may result in collecting the ORF from a non-member organization.<sup>8</sup>

Today, in the case where a member organization both executes a transaction and clears the transaction, the ORF will be assessed to and collected from that member organization. Today, in the case where a member organization executes a transaction and a different member organization clears the transaction, the ORF will be assessed to and collected from the member organization who clears the transaction and not the member organization who executes the transaction. Today, in the case where a non-member organization executes a transaction at an away market and a member organization clears the transaction, the ORF will be assessed to and collected from the member

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(17).

<sup>5</sup> Market participants must record the appropriate account origin code on all orders at the time of entry of the order. The Exchange represents that it has surveillances in place to verify that member organizations mark orders with the correct account origin code.

<sup>6</sup> The Exchange uses reports from OCC when assessing and collecting the ORF.

<sup>7</sup> CMTA or Clearing Member Trade Assignment is a form of "give-up" whereby the position will be assigned to a specific clearing firm at OCC.

<sup>8</sup> By way of example, if Broker A, a Phlx member organization, routes a Customer order to CBOE and the transaction executes on CBOE and clears in Broker A's OCC Clearing account, ORF will be collected by Phlx from Broker A's clearing account at OCC via direct debit. While this transaction was executed on a market other than Phlx, it was cleared by a Phlx member organization in the member organization's OCC clearing account in the Customer range, therefore there is a regulatory nexus between Phlx and the transaction. If Broker A was not a Phlx member organization, then no ORF should be assessed and collected because there is no nexus; the transaction did not execute on Phlx nor was it cleared by a Phlx member organization.

organization who clears the transaction. Today, in the case where a member organization executes a transaction on Phlx and a non-member organization clears the transaction, the ORF will be assessed to the member organization that executed the transaction on Phlx and collected from the non-member organization who cleared the transaction. Today, in the case where a member organization executes a transaction at an away market and a non-member organization ultimately clears the transaction, the ORF will not be assessed to the member organization who executed the transaction or collected from the non-member organization who cleared the transaction because the Exchange does not have access to the data to make absolutely certain that ORF should apply. Further, the data does not allow the Exchange to identify the member organization executing the trade at an away market.

#### ORF Revenue and Monitoring of ORF

Today, the Exchange monitors the amount of revenue collected from the ORF ("ORF Regulatory Revenue") to ensure that it, in combination with other regulatory fees and fines, does not exceed Options Regulatory Costs.<sup>9</sup> In determining whether an expense is considered an Options Regulatory Cost, the Exchange reviews all costs and makes determinations if there is a nexus between the expense and a regulatory function. The Exchange notes that fines collected by the Exchange in connection with a disciplinary matter offset Options Regulatory Cost.

ORF Regulatory Revenue, when combined with all of the Exchange's other regulatory fees and fines, is designed to recover a material portion of the Options Regulatory Costs to the Exchange of the supervision and regulation of member Customer options business including performing routine surveillances, investigations, examinations, financial monitoring, and policy, rulemaking, interpretive, and enforcement activities. Options Regulatory Costs include direct regulatory expenses and certain indirect expenses in support of the regulatory function. The direct expenses include in-house and third-party service provider costs to support the day-to-day regulatory work such as surveillances, investigations and examinations. The indirect expenses are only those

<sup>9</sup> The regulatory costs for options comprise a subset of the Exchange's regulatory budget that is specifically related to options regulatory expenses and encompasses the cost to regulate all member organizations' options activity ("Options Regulatory Cost").

expenses that are in support of the regulatory functions, such areas include Office of the General Counsel, technology, finance, and internal audit. Indirect expenses will not exceed 35% of the total Options Regulatory Costs. Thus, direct expenses would be 65% of total Options Regulatory Costs for 2024.<sup>10</sup>

The ORF is designed to recover a material portion of the Options Regulatory Costs to the Exchange of the supervision and regulation of its member organizations, including performing routine surveillances, investigations, examinations, financial monitoring, and policy, rulemaking, interpretive, and enforcement activities.

Proposal for November 1, 2024, Through December 31, 2024

Based on Phlx's most recent review of its ORF Regulatory Revenues as compared to its ORF Regulatory Costs in light of recent fines, Phlx proposes to reduce the amount of ORF that will be collected by the Exchange from \$0.0034 to \$0.0022 per contract side from November 1, 2024, through December 31, 2024. The Exchange issued an Options Trader Alert on September 16, 2024, that specified the proposed rate change for November 1, 2024.<sup>11</sup>

Phlx notes that there can be no assurance that the Options Regulatory Costs for the remainder of 2024 will not differ materially from these expectations and prior practice, nor can the Exchange predict with certainty whether options volume will remain at the current level going forward. The Exchange notes however, that when combined with regulatory fees and fines, the Options Regulatory Revenue that may be generated utilizing an ORF rate of \$0.0034 per contract side may result in Options Regulatory Revenue which exceeds the Exchange's estimated Options Regulatory Costs for 2024 as a result of fines. The Exchange therefore proposes to reduce its ORF to \$0.0022 per contract side to ensure that Options Regulatory Revenue does not exceed the Exchange's estimated Options Regulatory Costs in 2024. Particularly, the Exchange believes that reducing the ORF when combined with all of the Exchange's other regulatory fees and fines, would allow the Exchange to continue covering a material portion of its Options Regulatory Costs, while lessening the potential for generating excess revenue that may otherwise

<sup>10</sup> Direct and indirect expenses are based on the Exchange's 2024 Regulatory Budget.

<sup>11</sup> See <https://www.nasdaqtrader.com/MicroNews.aspx?id=OTA2024-53>. The Exchange plans on issuing a second Options Trader Alert announcing changes for January 1, 2025.

occur using the rate of \$0.0034 per contract side.<sup>12</sup>

The Exchange will continue to monitor the amount of Options Regulatory Revenue collected from the ORF to ensure that Options Regulatory Revenue, in combination with its other regulatory fees and fines, does not exceed Options Regulatory Costs. If the Exchange determines Options Regulatory Revenue exceed Options Regulatory Costs, the Exchange will adjust the ORF by submitting a fee change filing to the Commission and notifying<sup>13</sup> its members and member organizations via an Options Trader Alert.<sup>14</sup>

Proposal for January 1, 2025

Phlx has been reviewing its methodologies for the assessment and collection of ORF. As a result of this review, Phlx proposes to revamp the current process of assessing and collecting ORF in various ways.<sup>15</sup> Below Phlx will explain the modelling it performed and the outcomes of the modelling which have led the Exchange to propose the below changes.

Effective January 1, 2025, Phlx proposes to assess ORF to each Phlx member organization for multi-listed options transactions and options transactions in Phlx proprietary products,<sup>16</sup> cleared by OCC in all clearing ranges except market makers who clear as "M" at OCC ("Market Makers")<sup>17</sup> where: (1) the execution occurs on Phlx or (2) the execution occurs on another exchange and is cleared by a Phlx member organization. With this change, Phlx proposes to amend its current ORF to assess ORF on

<sup>12</sup> The Exchange notes that its regulatory responsibilities with respect to member and member organization compliance with options sales practice rules have largely been allocated to FINRA under a 17d-2 agreement. The ORF is not designed to cover the cost of that options sales practice regulation.

<sup>13</sup> The Exchange will provide members and member organizations with such notice at least 30 calendar days prior to the effective date of the change.

<sup>14</sup> The Exchange notes that in connection with this proposal, it provided the Commission confidential details regarding the Exchange's projected regulatory revenue, including projected revenue from ORF, along with a projected regulatory expense.

<sup>15</sup> The Exchange proposes to delete language in the Pricing Schedule at Options 7, Section 6D that will be obsolete as of November 1, 2024.

<sup>16</sup> Proprietary products are products with intellectual property rights that are not multi-listed. Phlx lists several proprietary products.

<sup>17</sup> Capacity "M" covers Market Makers registered on Phlx and market makers registered at non-Phlx exchanges.

Customer,<sup>18</sup> Professional,<sup>19</sup> Firm<sup>20</sup> and Broker-Dealer<sup>21</sup> transactions. All market participants, except Market Makers, would be subject to ORF.

The ORF would be collected by OCC on behalf of Phlx from (1) Phlx clearing members for all Customer, Professional, Firm and Broker-Dealer transactions they clear or (2) non-members for all Customer, Professional, Firm and Broker-Dealer transactions they clear that were executed on Phlx. This model collects ORF where there is a nexus with Phlx and does not collect ORF from a non-member organization where the transaction takes place away from the Exchange.

Further, effective January 1, 2025, the Exchange proposes to establish a different ORF for trades executed on Phlx ("Local ORF Rate") and trades executed on non-Phlx exchanges ("Away ORF Rate") by market participants. For Customer, Professional, and broker-dealer (not affiliated with a clearing member) transactions that clear in the "C" range at OCC (collectively "Customers") the Exchange proposes to assess a Local ORF Rate of \$0.0187 per contract and an Away ORF Rate of \$0.00 per contract. For Firm and Broker-Dealer transactions that clear in the "F" range at OCC (collectively "Firm and Broker-Dealer Transactions") the Exchange proposes to assess a Local ORF Rate of \$0.000107 per contract and an Away ORF Rate of \$0.000107 per contract. The combined amount of Local ORF and Away ORF collected may not exceed 88% of Options Regulatory Cost. Phlx will ensure that ORF Regulatory Revenue does not exceed Options Regulatory Cost. As is the case today, the Exchange will notify member organizations via an Options Trader Alert of these changes at

<sup>18</sup> The term "Customer" applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation ("OCC") which is not for the account of a broker or dealer or for the account of a "Professional" (as that term is defined in Options 1, Section 1(b)(45)). See Options 7, Section 1(c).

<sup>19</sup> The term "Professional" applies to transactions for the accounts of Professionals, as defined in Options 1, Section 1(b)(45) means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Options 7, Section 1(c).

<sup>20</sup> The term "Firm" applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC. See Options 7, Section 1(c).

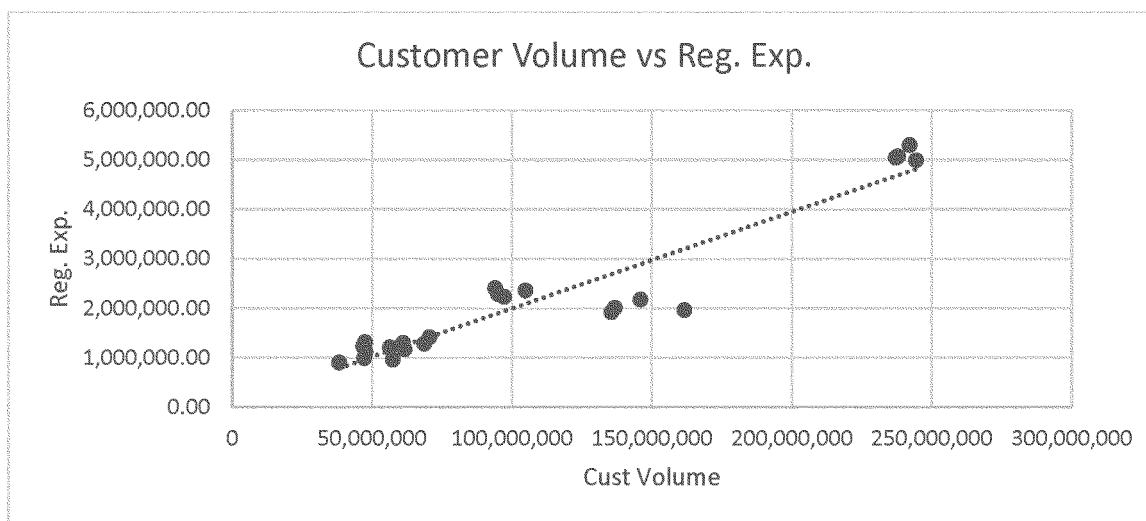
<sup>21</sup> The term "Broker-Dealer" applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category. See Options 7, Section 1(c). A Broker-Dealer clears in the "F" range at OCC.

least 30 calendar days prior to January 1, 2025.

The Exchange utilized historical and current data from its affiliated options exchanges to create a new regression model that would tie expenses attributable to regulation to a respective source.<sup>22</sup> To that end, the Exchange plotted Customer volumes from each exchange<sup>23</sup> against Options Regulatory

Cost from each exchange for the Time Period. Specifically, the Exchange utilized standard charting functionality to create a linear regression. The charting functionality yields a “slope” of the line, representing the marginal cost of regulation, as well as an “intercept,” representing the fixed cost of regulation. The Exchange considered using non-linear models, but concluded

that the best R<sup>2</sup> (“R-Squared”)<sup>24</sup> results came from a standard  $y = Mx + B$  format for regulatory expense. The R-Squared for the below charting method ranged from 85% to 95% historically. As noted, the plots below represent the Time Period. The X-axis reflects Customer volumes by exchange, by quarter and the Y-axis reflects regulatory expense by exchange.



The results of this modelling indicated a high correlation and intercept for the baseline cost of regulating the options market as a whole. Specifically, the regression model indicated that (1) the marginal cost of regulation is easily measurable, and significantly attributable to Customer activity; and (2) the fixed cost of setting up a regulatory regime should arguably be dispersed across the industry so that all options exchanges have substantially similar revenue streams to satisfy the “intercept” element of cost. When seeking to offset the “set-up” cost of regulation, the Exchange attempted several levels of attribution. The most successful attribution was related to industry wide Firm and Broker-Dealer Transaction volume. Of note, through analysis of the results of this regression model, there was no positive correlation that could be established between Customer away volume and regulatory expense. This led the Exchange to utilize a model with a two-factor regression on a quarterly basis for the last four quarters of

volumes relative to the pool of expense data for the six Nasdaq affiliated options exchanges. Once again, standard spreadsheet functionality (including the Data Analysis Packet) was used to determine the mathematics for this model. The results of this two-factor model, which resulted in the attribution of Customer Local ORF and Firm and Broker-Dealer Transaction Local and Away ORF, typically increased the R-Squared (goodness of fit) to >97% across multiple historical periods.<sup>25</sup>

Utilizing the new regression model, and assumptions in the proposal, the model demonstrates that Customer volumes are directly attributable to marginal cost, and also shows that Firm and Broker-Dealer Transaction volumes industry-wide are a valid method (given the goodness of fit) to offset the fixed cost of regulation. Applying the regression coefficient values historically, the Exchange established a “normalization” by per options exchange. This “normalization” encompassed idiosyncratic exchange expense-volume relationships which

served to tighten the attributions further while not deviating by more than 30% from the mean for any single options exchange in the model. The primary driver of this need for “normalization” are negotiated regulatory contracts that were negotiated at different points in time, yielding some differences in per contract regulatory costs by exchange. Normalization is therefore the average of a given exchange’s historical (prior 4 quarters) ratio of regulatory expense to revenue when using the regressed values (for Customer Local ORF and Firm and Broker-Dealer Transaction Local and Away ORF) that yields an effective rate by exchange. The “normalization” was then multiplied to a “targeted collection rate” of approximately 88% to arrive at ORF rates for Customer, Firm and Broker-Dealer Transactions. Of note, when comparing the ORF rates generated from this method, historically, there appears to be a very tight relationship between the estimated modeled collection and actual expense and the regulatory expenses for that same period. In

<sup>22</sup> This new model seeks to provide a new approach to attributing Options Regulatory Cost to Options Regulatory Expense. In creating this model, the exchange did not rely on data from a single SRO as it had in the past.

<sup>23</sup> The Exchange utilized data from all Nasdaq affiliated options exchanges to create this model from 2023 Q3 through 2024Q2 (“Time Period”).

<sup>24</sup> R-Squared is a statistical measure that indicates how much of the variation of a dependent variable is explained by an independent variable in a regression model. The formula for calculating R-

squared is:  $R^2 = 1 - \text{Unexplained Variation} / \text{Total Variation}$ .

<sup>25</sup> The Exchange notes that various exchanges negotiate their respective contracts independently with FINRA creating some variability. Additionally, an exchange with a floor component would create some variability.

summary, the model does not appear to increase marginal returns.

One other important aspect of this modeling is the input of Options Regulatory Costs. The Exchange notes that in defining Options Regulatory Costs it accounts for the nexus between the expense and options regulation. By way of example, the Exchange excludes certain indirect expenses such as payroll expenses, accounts receivable, accounts payable, marketing, executive level expenses and corporate systems.

The Exchange would continue to monitor the amount of Options Regulatory Revenue collected from the ORF to ensure that it, in combination with other regulatory fees and fines, does not exceed Options Regulatory Costs. In determining whether an expense is considered an Options Regulatory Cost, the Exchange would continue to review all costs and makes determinations if there is a nexus between the expense and a regulatory function. The Exchange notes that fines collected by the Exchange in connection with a disciplinary matter will continue to offset Options Regulatory Cost. Members will continue to be provided with 30 calendar day notice of any change to ORF.

As is the case today, ORF Regulatory Revenue, when combined with all of the Exchange's other regulatory fees and fines, is designed to recover a material portion of the Options Regulatory Costs to the Exchange for the supervision and regulation of member organizations' transactions, including performing routine surveillances, investigations, examinations, financial monitoring, and policy, rulemaking, interpretive, and enforcement activities. As discussed above, Options Regulatory Costs include direct regulatory expenses<sup>26</sup> and certain indirect expenses in support of the regulatory function.<sup>27</sup>

Finally, the Exchange notes that this proposal will be sunset on July 1, 2025, at which point the Exchange would revert back to the ORF methodology and rate (\$0.0034 per contract side) that was in effect prior to this rule change.<sup>28</sup>

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the

<sup>26</sup> The direct expenses include in-house and third-party service provider costs to support the day-to-day regulatory work such as surveillances, investigations and examinations.

<sup>27</sup> The indirect expenses include support from such areas as Office of the General Counsel, technology, finance and internal audit.

<sup>28</sup> The Exchange proposes to reconsider the sunset date in 2025 and determine whether to proceed with the proposed ORF structure at that time.

“Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>29</sup> Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>30</sup> which provides that Exchange rules may provide for the equitable allocation of reasonable dues, fees, and other charges among its members, and other persons using its facilities. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>31</sup> requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Proposal for November 1, 2024, Through December 31, 2024

The Exchange believes the proposed reduction of ORF is reasonable because it would help ensure that ORF Regulatory Revenue does not exceed a material portion of the Exchange's ORF Regulatory Costs. As noted above, the ORF is designed to recover a material portion, but not all, of the Exchange's ORF Regulatory Costs. Further, the Exchange believes the proposed fee change is reasonable because Customer transactions will be subject to a lower ORF than the rate that would otherwise be in effect on November 1, 2024.

The Exchange had designed the ORF to generate ORF Regulatory Revenue that would be less than the amount of the Exchange's ORF Regulatory Costs to ensure that it, in combination with its other regulatory fees and fines, does not exceed ORF Regulatory Costs, which is consistent with the view of the Commission that regulatory fees be used for regulatory purposes and not to support the Exchange's business operations. As discussed above, however, after review of its ORF Regulatory Costs and ORF Regulatory Revenue which includes revenues from ORF and other regulatory fees and fines, the Exchange determined that absent a reduction in ORF, it may collect ORF Regulatory Revenue which would exceed its ORF Regulatory Costs. Indeed, the Exchange notes that when taking into account the potential that recent options volume persists, it estimates the ORF may generate ORF Regulatory Revenue that would cover more than the approximated Exchange's projected ORF Regulatory Costs due to fines. As such, the Exchange believes it's reasonable and appropriate to

<sup>29</sup> 15 U.S.C. 78f(b).

<sup>30</sup> 15 U.S.C. 78f(b)(4).

<sup>31</sup> 15 U.S.C. 78f(b)(5).

reduce the ORF amount from \$0.0034 to \$0.0022 per contract side.

The Exchange also believes the proposed fee change is equitable and not unfairly discriminatory in that it is charged to all member organizations on all their transactions that clear in the Customer range at OCC.<sup>32</sup> The Exchange believes the ORF ensures fairness by assessing higher fees to those member organizations that require more Exchange regulatory services based on the amount of Customer options business they conduct. Regulating Customer trading activity is much more labor intensive and requires greater expenditure of human and technical resources than regulating non-Customer trading activity, which tends to be more automated and less labor-intensive. For example, there are costs associated with main office and branch office examinations (e.g., staff expenses), as well as investigations into Customer complaints and the terminations of registered persons. As a result, the costs associated with administering the Customer component of the Exchange's overall regulatory program are materially higher than the costs associated with administering the non-Customer component of its regulatory program. Moreover, the Exchange notes that it has broad regulatory responsibilities with respect to activities of its members and member organizations, a small portion of which takes place on away exchanges. Indeed, the Exchange cannot effectively review for such conduct without looking at and evaluating activity regardless of where it transpires. In addition to its own surveillance programs, the Exchange also works with other SROs and exchanges on intermarket surveillance related issues. Through its participation in the Intermarket Surveillance Group (“ISG”)<sup>33</sup> the Exchange shares information and coordinates inquiries and investigations with other exchanges designed to address potential intermarket manipulation and trading abuses. Accordingly, there is a strong nexus between the ORF and the

<sup>32</sup> If the OCC clearing member is a Phlx member organization, ORF will be assessed and collected on all cleared Customer contracts (after adjustment for CMTA); and (2) if the OCC clearing member is not a Phlx member organization, ORF will be collected only on the cleared Customer contracts executed at Phlx, taking into account any CMTA instructions which may result in collecting the ORF from a non-member organization.

<sup>33</sup> ISG is an industry organization formed in 1983 to coordinate intermarket surveillance among the SROs by cooperatively sharing regulatory information pursuant to a written agreement between the parties. The goal of the ISG's information sharing is to coordinate regulatory efforts to address potential intermarket trading abuses and manipulations.

Exchange's regulatory activities with respect to Customer trading activity of its members and member organizations.

Proposal for January 1, 2025

The Exchange believes the proposed ORF to be assessed on January 1, 2025, is reasonable, equitable and not unfairly discriminatory for various reasons. First, as of January 1, 2025, the Exchange would expand the collection of ORF to all clearing ranges, except Market Makers, provided the transaction was executed by an Phlx member organization or cleared by an Phlx member organization. With this amendment, Phlx would begin to assess Firm and Broker-Dealer Transactions an ORF, provided the transactions were executed by a Phlx member organization or cleared by a Phlx member organization. Additionally, the Exchange would assess an ORF for options transactions in Phlx proprietary products. Second, as of January 1, 2025, the Exchange would assess different rates to Customer transactions for the Local ORF Rate and Away ORF Rate as compared to Firms and Broker-Dealer Transactions. Third, as of January 1, 2025, the combined amount of Local ORF and Away ORF collected would not exceed 88% of Options Regulatory Cost as all member organizations, except Market Makers, would be assessed ORF.

The Exchange believes that assessing all member organizations, except Market Makers, an ORF is reasonable, equitable and not unfairly discriminatory. While the Exchange acknowledges that there is a cost to regulate Market Makers, unlike other market participants, Market Makers have various regulatory requirements with respect to quoting as provided for in Options 2, Section 4. Specifically, Market Makers have certain quoting requirements with respect to their assigned options series as provided in Options 2, Section 5. Lead Market Makers are obligated to quote in the Opening Process and intra-day.<sup>34</sup> Additionally, Market Makers may enter quotes in the Opening Process to open an option series and they are required to quote intra-day.<sup>35</sup> Further, unlike other market participants, Lead Market Makers and Market Makers have obligations to compete with other Market Makers to improve the market in all series of options classes to which the Market

Maker is appointed.<sup>36</sup> Also, Lead Market Makers and Market Makers incur other costs imposed by the Exchange related to their quoting obligations in addition to other fees paid by other market participants. Market Makers are subject to a number of fees, unlike other market participants. Market Makers pay Streaming Quote Trader Fees,<sup>37</sup> Remote Market Maker Organization (RMO) Fee,<sup>38</sup> and Remote Lead Market Maker Fee<sup>39</sup> in addition to other fees paid by other market participants. These liquidity providers are critical market participants in that they are the only market participants that are required to provide liquidity to Phlx and are necessary for opening the market. Excluding Market Maker transactions from ORF allows these market participants to manage their costs and consequently their business model more effectively thus enabling them to better allocate resources to other technologies that are necessary to manage risk and capacity to ensure that these market participants continue to compete effectively on Phlx in providing tight displayed quotes which in turn benefits markets generally and market participants specifically. Finally, the Exchange notes that Market Makers may transact orders in addition to submitting quotes on the Exchange. This proposal would except orders submitted by Market Makers, in addition to quotes, for purposes of ORF. Market Makers utilize orders in their assigned options series to sweep the order book. The Exchange believes the quantity of orders utilized by Market Makers in their assigned series is de minimis. In their unassigned options series, Market Makers utilize orders to hedge their risk or respond to auction. The Exchange notes that the number of orders submitted by Market Makers in their unassigned options series are far below the cap<sup>40</sup> and therefore de minimis.

The Exchange believes including options transactions in Phlx proprietary products is reasonable, equitable and not unfairly discriminatory because Phlx lists various proprietary products for which the Exchange incurs Options Regulatory Costs. The Exchange believes that only exchanges that list proprietary products should be able to collect a

Local ORF on their products. Phlx notes that there are a small number of Phlx proprietary products transacted as compared to multi-list options. Also, Phlx would only collect an ORF for proprietary products transacted on its market. As such, the Exchange believes that only a Local ORF should be applied to a Phlx proprietary product.

The Exchange believes that assessing different rates to Customer transactions for the Local ORF Rate and Away ORF Rate as compared to Firm and Broker-Dealer Transactions and collecting no more than 88% of Options Regulatory Cost is reasonable, equitable and not unfairly discriminatory. Customer transactions account for a material portion of Phlx's Options Regulatory Cost.<sup>41</sup> Customer transactions in combination with Firm and Broker-Dealer Transactions account for a large portion of the Exchange's surveillance expense. Therefore, the Exchange believes that 88% of Options Regulatory Cost is appropriate and correlates to the degree of regulatory responsibility and Options Regulatory Cost borne by the Exchange. With respect to Customer transactions, options volume continues to surpass volume from other options participants. Additionally, there are rules in the Exchange's Rulebook that deal exclusively with Customer transactions, such as rules involving doing business with a Customer, which would not apply to Firm and Broker-Dealer Transactions.<sup>42</sup> For these reasons, regulating Customer trading activity is "much more labor-intensive" and therefore, more costly. The Exchange believes that a large portion of the Options Regulatory Cost relates to Customer allocation because obtaining Customer information may be more time intensive. For example, non-Customer market participants are subject to various regulatory and reporting requirements which provides the Exchange certain data with respect to these market participants. In contrast,

<sup>41</sup> The Exchange notes that the regulatory costs relating to monitoring member organizations with respect to Customer trading activity are generally higher than the regulatory costs associated with member organizations that do not engage in Customer trading activity, which tends to be more automated and less labor-intensive. By contrast, regulating member organizations that engage in Customer trading activity is generally more labor intensive and requires a greater expenditure of human and technical resources as the Exchange needs to review not only the trading activity on behalf of Customers, but also the member organization's relationship with its Customers via more labor-intensive exam-based programs. As a result, the costs associated with administering the Customer component of the Exchange's overall regulatory program are materially higher than the costs associated with administering the non-Customer component of the regulatory program.

<sup>42</sup> See Phlx Options 10 Rules.

<sup>36</sup> See Phlx Options 2, Section 5(a)(3) and (5).

<sup>37</sup> See Phlx Options 7, Section 8, B.

<sup>38</sup> See Phlx Options 7, Section 8, C.

<sup>39</sup> See Phlx Options 7, Section 8, D.

<sup>40</sup> See Phlx Options 2, Section 6(a). The total number of contracts executed during a quarter by a Market Maker and Lead Market Maker in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the Market Maker and Lead Market Maker in options series.

<sup>34</sup> See Phlx Options 3, Section 8 and Options 2, Section 5.

<sup>35</sup> *Id.*

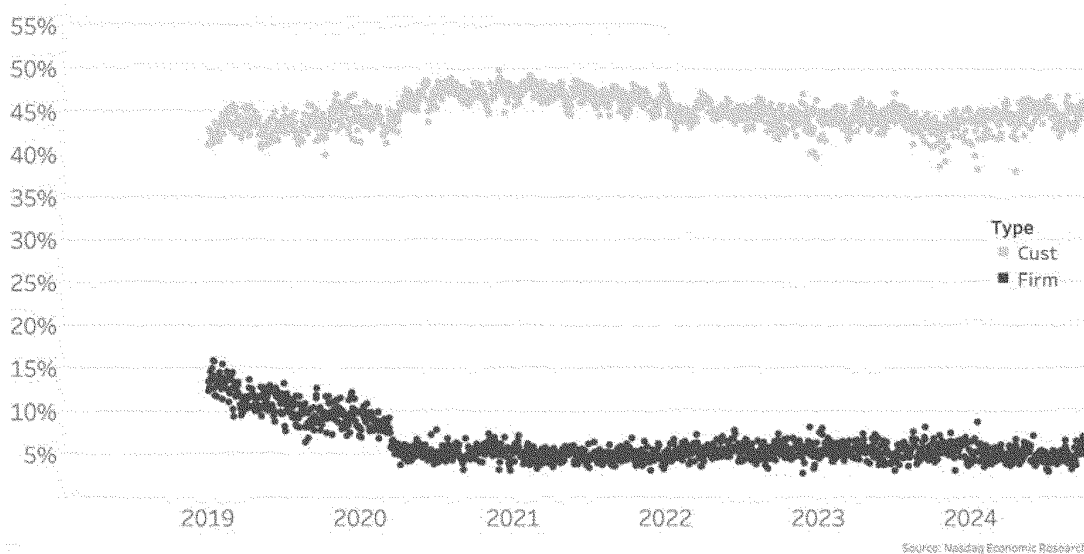
Customer information is known by member organizations of the Exchange and is not readily available to Phlx.<sup>43</sup> The Exchange may have to take additional steps to understand the facts surrounding particular trades involving a Customer which may require requesting such information from a broker-dealer. Further, Customers require more Exchange regulatory services based on the amount of options business they conduct. For example, there are Options Regulatory Costs associated with main office and branch office examinations (e.g., staff expenses), as well as investigations into Customer complaints and the

terminations of registered persons. As a result, the Options Regulatory Costs associated with administering the Customer component of the Exchange's overall regulatory program are materially higher than the Options Regulatory Costs associated with administering the non-Customer component when coupled with the amount of volume attributed to such Customer transactions. Utilizing the new regression model, and assumptions in the proposal, it appears that Phlx's Customer regulation occurs to a large extent on Exchange. Utilizing the new regression model, and assumptions in the proposal, the Exchange does not

believe that significant Options Regulatory Costs should be attributed to Customers for activity that may occur across options markets. To that end, with this proposal, the Exchange would assess Customers a Local ORF, but not an Away ORF rate.

In contrast, the Options Regulatory Cost of regulating Firm and Broker-Dealer Transactions is materially less than the Options Regulatory Costs of regulating Customer transactions, as explained above. The below chart derived from OCC data reflects the percentage of transactions by market participant.

Industry Capacity Market Share % January 2, 2019 to September 30, 2024



With this model, the addition of Firm and Broker-Dealer Transactions to the collection of ORF does not entail significant volume when compared to Customer transactions. As these market participants are more sophisticated, the Exchange notes that there are not the same protections in place for Firm and Broker-Dealer Transactions as compared to Customer transactions. Therefore, with the proposed model, the regulation of Firm and Broker-Dealer Transactions is less resource intensive than the regulation of Customer transactions. However, the Exchange notes that it appears from the new regression model and assumptions in the proposal, that unlike Customer transactions, the regulation of Firm and Broker-Dealer Transactions occurs both on the

Exchange and across options markets. To that end, the Exchange proposes to assess Firm Range Transactions both a Local ORF and an Away ORF in contrast to Customer transactions that would only be assessed a Local ORF. The Exchange believes that not assessing Market Maker transactions an ORF permits these market participants to utilize their resources to quote tighter in the market. Tighter quotes benefits Customers as well as other market participants who interact with that liquidity.

The Exchange's proposal to establish both a Local ORF Rate and an Away ORF Rate and allocate the portion of Options Regulatory Cost differently between the two separate rates, by market participant, ensures that the Local ORF Rate and Away ORF Rate

reflect the amount of Options Regulatory Costs associated with different types of surveillances and are reasonable, equitable and not unfairly discriminatory. The Exchange is responsible for regulating activity on its market as well as activity that may occur across options markets. The Exchange believes that it is reasonable, equitable and not unfairly discriminatory to assess only Firm and Broker-Dealer Transactions an Away ORF. With this model, while the regulation of Firm and Broker-Dealer Transactions is less resource intensive than the regulation of Customer transactions, it occurs both on the Exchange and across options markets.<sup>44</sup> The Exchange believes that assessing the Firm and Broker-Dealer

<sup>43</sup> The Know Your Customer or "KYC" provision is the obligation of the broker-dealer.

<sup>44</sup> Phlx pays the Financial Industry Regulatory Authority ("FINRA") to perform certain cross-

market surveillances on its behalf. In order to perform cross-market surveillances, Consolidated Audit Trail ("CAT") data is utilized to match options transactions to underlying equity

transactions. This review is data intensive given the volumes of information that are being reviewed and analyzed.

Transactions the same rate for Local ORF and Away ORF is appropriate given the lower volume that is attributed to these member organizations combined with the activity that is required to be regulated both on the Exchange and across options markets. The Exchange notes that there are Exchange rules that involve cross market surveillances that relate to activities conducted by Firm and Broker-Dealer Members.<sup>45</sup> While not large in number, when compared to the overall number of Exchange rules that are surveilled by Phlx for on-Exchange activity, the Away ORF that would be assessed to Firm and Broker-Dealer regulation would account for those costs. Additionally, the Exchange believes that limiting the amount of ORF assessed for activity that occurs on non-Phlx exchanges avoids overlapping ORFs that would otherwise be assessed by Phlx and other options exchanges that also assess an ORF. Also, the Exchange's proposal continues to ensure that Options Regulatory Revenue, in combination with other regulatory fees and fines, does not exceed Options Regulatory Costs. Fines collected by the Exchange in connection with a disciplinary matter will continue to offset Options Regulatory Cost.

Capping the combined amount of Local ORF and Away ORF collected at 88% of Options Regulatory Cost commencing January 1, 2025, is reasonable, equitable and not unfairly discriminatory as given these factors. The Exchange will review the ORF Regulatory Revenue at the end of January 2025 and would amend the ORF if it finds that its ORF Regulatory Revenue exceeds its projections.<sup>46</sup>

#### *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 intra-market competition not necessary or appropriate in furtherance of the purposes of the Act.

The proposed changes to ORF do not impose an undue burden on inter-market competition because ORF is a regulatory fee that supports regulation in furtherance of the purposes of the Act. The Exchange notes, however, the proposed change is not designed to address any competitive issues. The Exchange is obligated to ensure that the amount of ORF Regulatory Revenue, in

combination with its other regulatory fees and fines, does not exceed ORF Regulatory Cost.

Proposal for November 1, 2024, Through December 31, 2024

The Exchange's proposal to reduce its ORF from \$0.0034 to \$0.0022 per contract side from November 1, 2024, through December 31, 2024, does not create an unnecessary or inappropriate burden on intra-market competition because the ORF applies to all Customer activity, thereby raising regulatory revenue to offset regulatory expenses. It also supplements the regulatory revenue derived from non-customer activity.

Proposal for January 1, 2025

Excluding Market Makers does not impose an undue burden on intra-market competition because, unlike other market participants, Market Makers have various regulatory requirements with respect to quoting as provided for in Options 2, Section 4. Specifically, Market Makers have certain quoting requirements with respect to their assigned options series as provided in Options 2, Section 5. Lead Market Makers are obligated to quote in the Opening Process and intra-day.<sup>47</sup> Additionally, Market Makers may enter quotes in the Opening Process to open an option series and they are required to quote intra-day.<sup>48</sup> Further, unlike other market participants, Lead Market Makers and Market Makers have obligations to compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed and to update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed.<sup>49</sup> Also, Lead Market Makers and Market Makers incur other costs imposed by the Exchange related to their quoting obligations in addition to other fees paid by other market participants. Market Makers are subject to a number of fees, unlike other market participants. Market Makers pay Streaming Quote Trader Fees,<sup>50</sup> Remote Market Maker Organization (RMO) Fee,<sup>51</sup> and Remote Lead Market Maker Fee<sup>52</sup> in addition to other fees paid by other market participants. These liquidity providers are critical market participants in that they are the only market participants that are required to provide liquidity to Phlx and are

necessary for opening the market. Excluding Market Maker transactions from ORF does not impose an intra-market burden on competition, rather it allows these market participants to manage their costs and consequently their business model more effectively thus enabling them to better allocate resources to other technologies that are necessary to manage risk and capacity to ensure that these market participants continue to compete effectively on Phlx in providing tight displayed quotes which in turn benefits markets generally and market participants specifically. Finally, the Exchange notes that Market Makers may transact orders on the Exchange, in addition to submitting quotes. The Exchange's proposal to except orders submitted by Market Makers, in addition to quotes, for purposes of ORF does not impose an undue burden on intra-market competition because Market Makers utilize orders in their assigned options series to sweep the order book. Further, the Exchange believes the quantity of orders utilized by Market Makers in their assigned series is de minimis. In their unassigned options series, Market Makers utilize orders to hedge their risk or respond to auction. The Exchange notes that the number of orders submitted by Market Makers in their unassigned options series are far below the cap<sup>53</sup> and therefore de minimis.

Uniformly including options transactions in Phlx proprietary products in ORF for all Phlx member organizations does not impose an undue burden on intra-market competition. The Exchange believes that only exchanges that list proprietary products should be able to collect a Local ORF on their products. Phlx notes that there are a small number of Phlx proprietary products transacted as compared to multi-list options. Also, Phlx would only collect an ORF for proprietary products transacted on its market.

The Exchange's proposal to expand the clearing ranges to specifically include Firm and Broker-Dealer Transactions, in addition to Customer and Professional transactions, as of January 1, 2025, does not impose an undue burden on intra-market competition as Customer transactions account for a material portion of Phlx's

<sup>45</sup> Phlx conducts surveillances and enforces Phlx Rules, however only a subset of those rules is subject to cross-market surveillance, such as margin and position limits. Of note, some Phlx trading rules are automatically enforced by Phlx's System.

<sup>46</sup> Phlx would submit a rule change to the Commission to amend ORF rates.

<sup>47</sup> See Phlx Options 3, Section 8 and Options 2, Section 5.

<sup>48</sup> *Id.*

<sup>49</sup> See Phlx Options 2, Section 5(a)(3) and (5).

<sup>50</sup> See Phlx Options 7, Section 8, B.

<sup>51</sup> See Phlx Options 7, Section 8, C.

<sup>52</sup> See Phlx Options 7, Section 8, D.

<sup>53</sup> See Phlx Options 2, Section 6. The total number of contracts executed during a quarter by a Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded. In the Exchange's experience, Market Maker's are generally below the 25% cap.



Options Regulatory Cost.<sup>54</sup> Customer transactions in combination with Firm and Broker-Dealer Transactions account for a large portion of the Exchange's surveillance expense. With respect to Customer transactions, options volume continues to surpass volume from other options participants. Additionally, there are rules in the Exchange's Rulebook that deal exclusively with Customer transactions, such as rules involving doing business with a Customer, which would not apply to Firm and Broker-Dealer Transactions.<sup>55</sup> For these reasons, regulating Customer trading activity is "much more labor-intensive" and therefore, more costly. Further, the Exchange believes that a large portion of the Options Regulatory Cost relates to Customer allocation because obtaining Customer information may be more time intensive. For example, non-Customer market participants are subject to various regulatory and reporting requirements which provides the Exchange certain data with respect to these market participants. In contrast, Customer information is known by member organizations of the Exchange and is not readily available to Phlx.<sup>56</sup> The Exchange may have to take additional steps to understand the facts surrounding particular trades involving a Customer which may require requesting such information from a broker-dealer. Further, Customers require more Exchange regulatory services based on the amount of options business they conduct. For example, there are Options Regulatory Costs associated with main office and branch office examinations (e.g., staff expenses), as well as investigations into Customer complaints and the terminations of registered persons. As a result, the Options Regulatory Costs associated with administering the Customer component of the Exchange's overall regulatory program are materially higher than the Options

<sup>54</sup> The Exchange notes that the regulatory costs relating to monitoring Members with respect to customer trading activity are generally higher than the regulatory costs associated with Members that do not engage in customer trading activity, which tends to be more automated and less labor-intensive. By contrast, regulating Members that engage in customer trading activity is generally more labor intensive and requires a greater expenditure of human and technical resources as the Exchange needs to review not only the trading activity on behalf of customers, but also the Member's relationship with its customers via more labor-intensive exam-based programs. As a result, the costs associated with administering the customer component of the Exchange's overall regulatory program are materially higher than the costs associated with administering the non-customer component of the regulatory program.

<sup>55</sup> See Phlx Options 10 Rules.

<sup>56</sup> The Know Your Customer or "KYC" provision is the obligation of the broker-dealer.

Regulatory Costs associated with administering the non-Customer component when coupled with the amount of volume attributed to such Customer transactions. Not attributing significant Options Regulatory Costs to Customers for activity that may occur across options markets does not impose an undue burden on intra-market competition because the data in the regression model demonstrates that Phlx's Customer regulation occurs to a large extent on Exchange.

The Exchange believes that assessing Firm and Broker-Dealer Transactions a different ORF and assessing both a Local ORF and an Away ORF to these transactions does not impose an undue burden on intra-market competition because the regulation of Firm and Broker-Dealer Transactions is less resource intensive than the regulation of Customer transactions. With this model, the addition of Firm and Broker-Dealer Transactions to the collection of ORF does not entail significant volume when compared to Customer transactions. Unlike Customer transactions, the regulation of Firm and Broker-Dealer Transactions occurs both on the Exchange and across options markets. To that end, the Exchange proposes to assess Firm and Broker-Dealer Transactions both a Local ORF and an Away ORF.

The Exchange's proposal to allocate the portion of costs differently between the Local ORF and Away ORF does not create an undue burden on intra-market competition. The Exchange believes that each rate reflects the amount of Options Regulatory Costs associated with different types of surveillances and does not create an undue burden on competition as Phlx member organizations, excluding except Market Makers, would be uniformly assessed either a Local ORF Rate or an Away ORF Rate depending on where the transaction occurred and whether the transaction was executed or cleared by an Phlx member organization. Also, the Exchange would uniformly assess the Local ORF Rate and an Away ORF Rate by market participant. The Exchange is responsible for regulating activity on its market as well as activity that may occur across options markets.

The Exchange believes that assessing only Firm and Broker-Dealer Transactions an Away ORF does not create an undue burden on intra-market competition because while the regulation of Firm and Broker-Dealer Transactions is less resource intensive than the regulation of Customer transactions, the regulation of Firm and Broker-Dealer transactions occurs both on the Exchange and across options

markets.<sup>57</sup> The Exchange believes that assessing Firm and Broker-Dealer Transactions the same rate for Local ORF and Away ORF is appropriate given the lower volume that is attributed to these member organizations combined with the activity that is required to be regulated both on the Exchange and across options markets. There are Exchange rules that involve cross market surveillances that relate to activities conducted by Firm and Broker-Dealer member organizations.<sup>58</sup> While not large in number, when compared to the overall number of Exchange rules that are surveilled by Phlx for on-Exchange activity, the Away ORF that would be assessed to Firm and Broker-Dealer Transactions would account for those Options Regulatory Costs. Additionally, the Exchange believes that limiting the amount of ORF assessed for activity that occurs on non-Phlx exchanges does not impose a burden on intra-market competition, rather it avoids overlapping ORFs that would otherwise be assessed by Phlx and other options exchanges that also assess an ORF. With this model, Customer transactions would be assessed a higher Local ORF, while not being assessed an Away ORF as compared to Firm and Broker-Dealer Transactions. The Exchange believes that this difference in allocation is appropriate and correlates to the degree of regulatory responsibility and Options Regulatory Costs borne by different member organizations of the Exchange in light of the volume different member organizations transact on the Exchange.

### *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

<sup>57</sup> Phlx pays the Financial Industry Regulatory Authority ("FINRA") to perform certain cross-market surveillances on its behalf. In order to perform cross-market surveillances, Consolidated Audit Trail ("CAT") data is utilized to match options transactions to underlying equity transactions. This review is data intensive given the volumes of information that are being reviewed and analyzed.

<sup>58</sup> Phlx conducts surveillances and enforces Phlx Rules, however only a subset of those rules is subject to cross-market surveillance, such as margin and position limits. Of note, some Phlx trading rules are automatically enforced by Phlx's System.

19(b)(3)(A)(ii) of the Act<sup>59</sup> and Rule 19b-4(f)(2)<sup>60</sup> thereunder.

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 change should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### *Electronic Comments*

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-Phlx-2024-50 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-2024-50. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also

will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-Phlx-2024-50 and should be submitted on or before December 5, 2024.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>61</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2024-26409 Filed 11-13-24; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-101561; File No. SR-FINRA-2024-018]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend FINRA Rule 13606 (Record of Proceedings) To Provide Customers Access to a Copy of the Official Record of an Expungement Hearing

November 7, 2024.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 1, 2024, the Financial Industry Regulatory Authority, Inc. ("FINRA") 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 FINRA. FINRA has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

<sup>61</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

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

FINRA is proposing to amend Rule 13606 of the Code of Arbitration Procedure for Industry Disputes ("Industry Code") to provide that the Director ("Director") of FINRA Dispute Resolution Services ("DRS") will provide a copy of the official record of an expungement hearing held pursuant to Rule 13805, and any transcription if the recording is transcribed, to any customers, upon request, who attend and participate in the expungement hearing, or who provide their position on the expungement request in writing. The proposed rule change would also amend Rule 12606 of the Code of Arbitration Procedure for Customer Disputes ("Customer Code" and together with the Industry Code, "Codes") and Rule 13606 to remove references to "tape" as a form of media that is used to record arbitration proceedings in the DRS arbitration forum.

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA 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, FINRA 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. FINRA 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

Rule 13606 provides that the Director of DRS will make a tape, digital, or other recording of every hearing<sup>4</sup> and the Director will provide a copy of the recording to any party upon request.<sup>5</sup> In addition, Rule 13606 provides that the panel may order the parties to provide

<sup>4</sup> The term "hearing" means the hearing on the merits of an arbitration under Rule 13600. See Rule 13100(o).

<sup>5</sup> See Rule 13606(a)(1). Recordings made pursuant to Rule 13606(a)(1) are provided to parties free of charge.

<sup>59</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>60</sup> 17 CFR 240.19b-4(f)(2).