



October 12, 2026

Via Electronic Mail (pubcom@finra.org)

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
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Washington, DC 20006

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Re: Regulatory Notice 26-15 – Request for Comment on Modernizing FINRA’s Best Execution Guidance

Dear Ms. Mitchell:

Belvedere Trading LLC (“Belvedere”) appreciates the opportunity to comment on FINRA Regulatory Notice 26-15 (the “Notice”)¹ and, specifically, FINRA’s request for input regarding whether additional best execution guidance is warranted for listed options, including with respect to the unbundling of customer orders (Question 8.a), as well as related questions concerning routing to affiliated venues (Question 1.a.iv), the obligations of firms in the routing chain (Question 5.a), and the evaluation of execution quality for listed options (Question 8.c). Belvedere is an SEC-registered broker-dealer that has made markets in U.S. listed options for over two decades and quotes on a broad range of the major options exchanges. Belvedere has no retail brokerage business and does not route retail customer orders. Our views on the Notice therefore reflect the experience of a firm that earns its order flow by quoting competitive prices and supplying liquidity, rather than through routing arrangements.

In summary, Belvedere recommends that FINRA: (1) clarify that increasing affiliated internalization is not, standing alone, a legitimate basis for dividing a customer order; (2) evaluate unbundling based on the execution quality sought for the customer’s order as a whole, including any price-improvement opportunities forgone; and (3) require firms that use information regarding an affiliated market maker in routing decisions to demonstrate that those practices are reasonably designed around customer execution quality.

Unbundling Should Serve the Customer, Not Internalization

Belvedere believes that unbundling a customer order for the purpose of increasing a broker-dealer’s opportunity to internalize that order through an affiliated market maker is inconsistent

¹ FINRA Regulatory Notice 26-15, *FINRA Requests Comment on Modernizing FINRA’s Best Execution Guidance* (July 24, 2026).

with the fundamental principles of best execution.² That said, Belvedere recognizes that splitting an order can sometimes be the right choice for the customer. For example, where displayed size is thin or better prices sit on several venues at once, a divided order may achieve a superior aggregate result. The relevant inquiry should therefore focus on whether the unbundling was reasonably designed to enhance the customer's execution.

A materially different concern arises where a routing broker structures its routing decisions around exchange allocation benefits available to an affiliated market maker. Many options exchanges give market makers holding Designated Primary Market Maker ("DPM") or Lead Market Maker ("LMM") appointments a preferential share of incoming orders when they are quoting at the best price. More importantly, for orders five lots and below, that share can amount to the entire order.

DPM and LMM appointments hold market makers to certain quoting obligations and were originally designed to ensure customers could always find a matching buyer or seller in illiquid markets. Today, such appointments are common across options classes regardless of liquidity profile. Appointments in highly liquid options classes are both commercially valuable and highly concentrated among a small number of market makers with affiliated routing businesses.³ In these highly liquid names, a conflict can arise when a routing broker's affiliate holds such appointments in the same class on several exchanges. To illustrate, suppose a broker receives a marketable customer order for 30 contracts and enough liquidity is displayed to fill all of it at the national best bid or offer ("NBBO"). A broker aware of where its affiliate holds preferential appointments could divide the order into six five-contract orders, each within the small-order allocation threshold, and send each child order to a different exchange on which the affiliate holds an appointment. In that case, substantially all of the order may execute against the affiliate.

That outcome does not necessarily demonstrate that the customer received poor execution. The affiliate may have been quoting at the NBBO and each execution may have occurred at a permissible price. Best execution, however, should require consideration of more than whether each individual execution occurred at the NBBO⁴; it should consider whether the original customer order was handled in a manner reasonably designed to obtain the most favorable execution available. Belvedere agrees that unbundling should be assessed by reference to the customer's overall outcome rather than each child order in isolation. That outcome, however, must account for the price-improvement opportunities a customer forgoes when an order is divided to fit allocation entitlements rather than exposed to competition.

Belvedere further believes that a defining strength of the U.S. listed options market is that customer orders, including those ultimately internalized, can receive price improvement once they reach an exchange. This structure allows customers to interact with the entire ecosystem of market makers by incentivizing those market makers to compete for order flow through price improvement. Where an order is fragmented primarily to increase the probability that an affiliated market maker

² See FINRA Rule 5310(a)(1) (requiring members to use reasonable diligence to ascertain the best market so that the resultant price to the customer is "as favorable as possible under prevailing market conditions").

³ See Thomas Ernst & Chester Spatt, *Payment for Order Flow and Option Internalization*, Rev. Fin. Stud. (2026) (finding that the four largest wholesalers paying for order flow collectively hold 83% of DMM assignments).

⁴ FINRA has long recognized that obtaining the best bid or offer may not satisfy a firm's best execution obligation, particularly with respect to small orders. See Regulatory Notice 15-46 (Nov. 20, 2015); Notice, Section B.

will trade against it, that opportunity for price improvement is diminished or eliminated, and the routing strategy risks shifting the priority from obtaining the best result for the customer to maximizing internalization.

Accordingly, Belvedere recommends that FINRA clarify that unbundling should be evaluated based upon the execution quality sought for the customer as a whole and that increasing affiliated internalization, standing alone, is not a legitimate justification for dividing an order. Such guidance would also promote consistency with existing exchange rules that restrict unbundling for purposes other than seeking best execution of the entire order.⁵

Routing Based on Affiliate Information Should Advance Customer Execution Quality

The same principle should govern information flows between an affiliated routing broker and market maker. Vertically integrated firms may possess information regarding their affiliated market maker that unaffiliated liquidity providers do not possess. Depending upon the structure of the firms and applicable information controls, this may include knowledge regarding where the affiliate holds DPM or LMM appointments, where it is quoting, its likelihood of receiving an exchange allocation, or other information relevant to routing decisions.

Belvedere therefore recommends that FINRA issue guidance requiring firms whose routing practices use information regarding an affiliated market maker to be able to demonstrate that those practices are reasonably designed around customer execution quality.⁶ Relevant surveillance could include reviewing whether orders are systematically divided at allocation thresholds, whether child orders disproportionately route to venues where affiliates hold preferred appointments, and whether reasonably available price-improvement opportunities were considered.

Conclusion

Belvedere supports FINRA's effort to modernize its best execution guidance for listed options. The options markets benefit when liquidity providers compete to offer better prices and greater liquidity, and routing practices should reinforce that competition rather than permit exchange allocation rules and affiliate relationships to displace it. Belvedere respectfully encourages FINRA to make clear that unbundling, and the use of affiliate information in routing decisions, must be aligned with the customer's execution interests rather than affiliated internalization.

Thank you for considering these comments. Belvedere would welcome the opportunity to discuss these comments with FINRA staff. Should you have any questions regarding this letter, please contact the undersigned at mmorgan@belvederetrading.com.

⁵ See, e.g., Nasdaq ISE Options 9, Section 25.

⁶ See FINRA Rule 5310, Supplementary Material .09(b) (requiring members to compare the execution quality obtained through current routing arrangements, including internalization, with that available from competing markets); Regulatory Notice 21-23 (June 23, 2021) (stating that firms may not negotiate order routing arrangements in a manner that reduces price improvement opportunities otherwise available to customer orders absent payment for order flow).

Sincerely,

Megan Morgan
Head of Market Structure
Belvedere Trading, LLC