November 8, 2017

Via Electronic Mail (rule-comments@sec.gov)
Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: NASDAQ PHLX LLC; Notice of Filing of a Proposed Rule Change to Introduce the
       Intellicator Analytical Tool (File No. SR-PHLX-2017-74)

Dear Mr. Fields:

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the
opportunity to respond to the request for comment by the U.S. Securities and Exchange
Commission ("SEC" or "Commission") on the above-referenced proposed rule change filed by
NASDAQ PHLX LLC ("Phlx" or "Exchange") to introduce the "Intellicator Analytic Tool."[2]
For the reasons set forth below, SIFMA believes the Commission should disapprove Phlx's
proposal.

Under the proposal, Phlx would introduce the Intellicator Analytical Tool, which the Exchange
calls, "a new, optional market data product available for a corresponding fee that is designed to
analyze options market transactions and synthesize that analysis to assist investors in assessing
the equities underlying those transactions."[3] The filing states that the purpose of the product is
to "make data about market sentiment available to investors."[4] SIFMA has a number of
concerns about the proposal and whether it satisfies the applicable provisions of the Securities
Exchange Act of 1934 ("Exchange Act").

At the outset, we note that the Phlx proposal to offer the Intellicator Analytical Tool raises
issues about the roles and obligations of exchanges and broker-dealers in today's listed options

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[1] SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset
managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5
trillion for businesses and municipalities in the U.S., serving clients with over $20 trillion in assets and
managing more than $67 trillion in assets for individual and institutional clients including mutual funds
and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional
member of the Global Financial Markets Association (GFMA). For more information, visit
http://www.sifma.org.

[2] *See* Securities Exchange Act Release No. 34-81754 (October 4, 2017), 82 FR 46319 (September 28,
2017).

[3] Id.

[4] See 82 FR at 46320.

market structure. As stated in the filing, "Many firms produce internal analytic models to assess market sentiment similar to the Intellicator Analytic Tool.[5]" This product represents yet another example of exchanges trying to enter the broker-dealer space to expand their commercial activities outside of their current roles as exchanges. Indeed, the product will utilize "machine learning algorithms" to generate the analytics as opposed to the raw data that is typically disseminated in proprietary exchange data feeds. Importantly, these analytics will draw on information that is not available to any other market participant, creating a monopoly product. SIFMA believes this product would compete with the services and products that broker-dealers and other market participants currently use and offer and question whether the Exchange Act permits a national securities exchange to offer that functionality.

Another critical role that broker dealers perform for their customers, including sophisticated institutions who represent retail investors, is to provide analytical tools designed to reduce market impact of orders while providing customers with the ability to improve trading performance. SIFMA has serious concerns that the Intellicator Analytical Tool will adversely impact execution quality should the product receive Commission approval. The product could negatively impact execution quality and the end customer experience since it will signal subscribers with information, including directional trends in specific options series or classes. If this data is made publicly available, customer trades could be adversely impacted if bad actors attempt to utilize this data to manipulate the market. This would be at the expense of the customers and their clients who are entering the very orders that the Intellicator Analytical Feed is based upon.

Furthermore, SIFMA members are concerned that the combination of the unique data that Phlx is using in the product could be detrimental to investors. The Intellicator Analytical Tool could harm investors since calculations "will be based on rolling aggregates of trading data, updated every 60 seconds over the course of the day.[6]" SIFMA's members are in strong agreement that many trading scenarios require more than one minute to execute. For example, a firm might receive a customer order, execute a portion of it, and work the remainder over the course of the day. Alternatively, a TWAP ("time weighted average price") strategy could be electronically entered at an exchange, with the expectation that executions occur throughout the course of the day based on the criteria built into the algorithm.

With the proposed introduction of the Intellicator Analytical Feed, firms could be required to subscribe to the product since it provides information "not otherwise available on the Exchange's market data feeds[7]" in order to fulfill their best execution obligations. Indeed, Phlx implies this in the filing by stating that: "To the degree that investors use Single-Factor Analytic Bundles to reverse-engineer certain factor calculations to obtain transaction specific information not otherwise provided on Exchange's data feeds, the availability of such information promotes transparency and increases market efficiency, thereby protecting investors and the public interest.[8]"

SIFMA questions how a product that can be used to reverse engineer proprietary client identifying data is consistent with the Exchange Act. In our view, the entire purpose of the feed is to give more transparency around what is currently trading, presumably so people can adjust their trading algorithms around aggression levels in both the options and underlying.

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[5] See 82 FR at 46322

[6] See 82 FR at 46321

[7] See 82 FR at 46322

[8] Id.

Since there is no Trade Reporting Facility for Listed Options and all trades occur on an exchange, the expansion of this product across exchanges would mean there is no way a client could trade listed options without running the risk of their proprietary data being reverse engineered.

Another critical issue to note is that the product is not required. Phlx is using non-public data to create something new but it's not exactly analogous to market data because it's not something the firms NEED for best execution or other regulatory purpose. Rather, the key goal of the product is to introduce a new monopolistic product that firms could be required to ingest as part of their best execution obligations. This is an attempt for the exchange to use broker-dealer data, that only the exchange has access to, and effectively, re-sell it back to their members.

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SIFMA greatly appreciates the Commission's consideration of our comments on File No. SR-PHLX-2017-74 and recommends that the Commission disapprove the filing. We would be pleased to discuss these comments in greater detail with the staff of the Commission. If you have any questions, please contact me at ██████████ or ██████████.

Sincerely,

Ellen Greene
Managing Director

cc:　　The Honorable Jay Clayton, Chairman, SEC
　　　　The Honorable Michael S. Piwowar, Commissioner, SEC
　　　　The Honorable Kara M. Stein, Commissioner, SEC

　　　　Brett Redfearn, Director, Division of Trading and Markets, SEC
　　　　David S. Shillman, Associate Director, Division of Trading and Markets, SEC
　　　　John Roeser, Associate Director, Division of Trading and Markets, SEC

　　　　Thomas Wittman, Executive Vice President, Nasdaq