

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76697; File No. SR-Phlx-2015-106)

December 18, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Trading Halts

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 December 9, 2015, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) 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 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The Exchange proposes to delete obsolete rule language and amend outdated references relating to Exchange Rule 1047, Trading Rotations, Halts and Suspensions.<sup>3</sup>

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, 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

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

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

<sup>3</sup> The Exchange proposes to re-title the rule “Trading Halts.”

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

The purpose of the proposed rule change is to update the Exchange's rules by ensuring the rules accurately reflect how trading halts occur on the Exchange's fully electronic trading system, the Phlx XL II system ("System").<sup>4</sup> Rule 1047 is now outdated in certain ways and lacks specificity in certain ways. Primarily, as explained below, the rule does not accurately reflect under what circumstances the halt will automatically be imposed by the System versus manually declared by an official. The Exchange proposes to delete obsolete rule language and amend outdated references in order to remove confusion that may result from having outdated rules in the Exchange's rulebook and ensure that the rulebook accurately reflects member obligations. Furthermore, the Exchange is reorganizing the rule to flow in a more logical fashion. In addition, the Exchange proposes to harmonize certain language in Rule 1047 with comparable rules of its affiliates, as described in further detail below.<sup>5</sup>

First, the Exchange proposes to delete the existing text of paragraph (a) under Rule 1047 which governs opening and closing trading rotations. Paragraph (a) is obsolete because the Exchange no longer relies on manual trading rotations to open and close trading on the

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<sup>4</sup> In May 2009, the Exchange enhanced the system and adopted corresponding rules referring to the system as "Phlx XL II." See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). The Exchange is proposing to define the term "System" in proposed subparagraph (b)(iii); previously, only the term "Trading System" was used and defined in current subparagraph (a)(iv).

<sup>5</sup> See Nasdaq Options Market ("NOM") Chapter V, Section 3 and BX Options Chapter V, Section 3.

Exchange.<sup>6</sup> A trading rotation, as described in current Rule 1047.01, is a series of very brief time periods during each of which bids, offers and transactions in only a single, specified option contract can be made.<sup>7</sup> The Exchange's opening process that replaced trading rotations is set forth in Rule 1017.<sup>8</sup> Thus far, the Exchange maintained references to rotations for two reasons. The Phlx XL II System was phased-in over a period of time such that the Exchange's rules needed to reflect both the existing manual processes as well as the "new" systems;<sup>9</sup> the rules no longer need to do so. Secondly, the term "trading rotation" is still sometimes used to cover automated openings, including on other options exchanges; nevertheless, the Exchange believes it is clearer, at this time, not to use that term. In any event, option series on the Exchange open in an automated fashion pursuant to Rule 1017. In addition, the Exchange now simply stops trading in an option rather than relying on a closing rotation,<sup>10</sup> as currently provided for in

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<sup>6</sup> The exception is in the event an automated opening cannot occur or a closing rotation is deemed necessary, in which case the procedures in the Commentaries to Rule 1047 would be employed pursuant to the authority in current Rule 1047(c), which is proposed to become Rule 1047(b), Manual Rotations.

<sup>7</sup> Specialists used to always conduct manual trading rotations pursuant to the following existing language: Taking each option in which he is assigned in turn, the specialist should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The specialist shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions. Reverse and modified rotations could all be conducted. See current Rule 1017.01(a) and (b). All rotations have been replaced with an automated opening process. See supra note 4. A manual rotation may occur but is unlikely. See supra note 6.

<sup>8</sup> See supra note 4.

<sup>9</sup> This is why the Exchange added to Rule 1047 the language that an automated opening conducted pursuant to Rule 1017 is considered a "trading rotation."

<sup>10</sup> In deleting existing paragraph (a), a reference to trading rotations "at the close of trading on the last trading day with respect to expiring equity option contracts" is also being deleted. Any such rotation would be manual pursuant to existing Rule 1047.01(c). The Exchange also proposes to add introductory language to the Commentaries to make it

paragraph (a), which is a manual process conducted by the specialist.<sup>11</sup> Accordingly, current paragraph (a) is being updated. The Exchange believes that it is clearer to eliminate the reference to rotations from paragraph (a).

Additionally, the Exchange proposes to adopt as new paragraph (a) a provision to reflect the fact that the System automatically halts trading in an option on the Exchange in certain situations. Specifically, an automated halt occurs following a halt or suspension of trading of the underlying security<sup>12</sup> in the primary market,<sup>13</sup> a regulatory halt on the primary market,<sup>14</sup> a delayed opening of the underlying security because of unusual circumstances,<sup>15</sup> or a trading pause on the primary market.<sup>16</sup> With respect to a halt on the primary market and delayed openings, Rule 1047(b)(i) and (ii) currently permit a halt, but because the Exchange currently halts automatically, the Exchange is now updating its rule to reflect such automatic halt.<sup>17</sup> None of these reasons for a halt are new.

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clearer that such Commentaries cover manual rotations by specifically stating that in the event the System is not available, a manual trading rotation may be held on the opening and close of trading.

<sup>11</sup> The System automatically turns off trading at the close, rather than relying on a manual process.

<sup>12</sup> This rule currently uses both the terms “underlying security” and “underlying stock or Exchange-Traded Fund Share.” Separately, the Exchange intends to harmonize that throughout its rules. For purposes of this filing, the terms are interchangeable.

<sup>13</sup> This is currently in paragraph (b)(i).

<sup>14</sup> This provision is currently in Commentary .01(e) and expressly references an automated trading halt. It is being deleted from the commentary.

<sup>15</sup> This is currently in paragraph (b)(ii).

<sup>16</sup> This provision is not new; it is currently in paragraph (e) and is being relocated to new paragraph (a).

<sup>17</sup> The similar provisions on NOM and BX will be updated to reflect the difference between automated and manual halts.

Existing Rule 1047(e) refers to the “primary listing market,” which is not defined in Exchange rules, while the rest of Rule 1047 uses the term “primary market.” Rule 1000(b)(31) currently provides that the term “primary market” in respect of an underlying stock or Exchange-Traded Fund Share means the principal market in which the underlying stock or Exchange-Traded Fund Share is traded. The Exchange believes that this is not clear and proposes to change this definition such that the term “primary market” means, in the case of securities listed on The Nasdaq Stock Market, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan. This is the same definition that is used in NOM and BX rules.<sup>18</sup>

New paragraph (b) will address manual halts by Options Exchange Officials (rather than automatic halts by the System).<sup>19</sup> Specifically, trading on the Exchange in any options shall be halted<sup>20</sup> whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that: an occurrence of an act of God or other event outside the Exchange’s control;<sup>21</sup> technical failure or failures of the Exchange’s current automated trading system or any other Exchange

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<sup>18</sup> See NOM Chapter I, Section 1(a)(47) and BX Options Chapter I, Section 1(a)(48).

<sup>19</sup> The comparable NOM and BX rules reference regulatory personnel more generally as “Regulation” while the Phlx rule is more specific by referring to “Options Exchange Officials.” See e.g., NOM Chapter V, Section 3(a). See also Phlx Rule 1(w).

<sup>20</sup> The Exchange is deleting the words “or suspended” because that term does not normally apply to options trading but rather to trading in the underlying security. See e.g., current Rule 1047(a)(i), which provides that trading in the underlying stock or Exchange-Traded Fund Share has been halted *or suspended* in the primary market. See also NOM Chapter V, Section 3(a)(i).

<sup>21</sup> This is the only new provision, and it is based on NOM Chapter V, Section 3(a)(iii).

quotation, transaction reporting, execution, order routing or other systems for trading options, including, but not limited to, the failure of or a part of the central processing system, a number of member or member organization trading applications, or the electrical power supply to the system itself or any related system;<sup>22</sup> or other unusual conditions or circumstances are present.<sup>23</sup> The Exchange is proposing to delete the language in existing Rule 1047(a)(iii) regarding issuer announcements, because the Exchange believes that issuer announcements are handled by the listing exchange for the underlying security, not the options market. If the listing market were to halt an underlying security, the options market would halt based on proposed Rule 1047(a).

Paragraph (b) will also reflect the fact that an Options Exchange Official retains the authority to delay the opening, halt and reopen after a halt to open where the underlying security has not opened or current quotations are unavailable for any foreign currency, and to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying security did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors. This is currently in Rule 1047(c). The Exchange is labelling this paragraph with the title “Manual Authority” to retain the ability of Options Exchange Officials to perform these duties in the unlikely event that it becomes necessary.

The Exchange proposes to adopt new paragraph (c) to reflect more specifically what happens when an option is halted. It will provide that in the event the Exchange halts trading pursuant to paragraphs (a) or (b), all trading in the affected option shall be halted. The Exchange

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<sup>22</sup> This is in existing Rule 1047(a)(iv). The Exchange is proposing to define the term “System” here, which is the same as Trading System, for use throughout the Rule.

<sup>23</sup> This is in existing Rule 1047(a)(v).

shall disseminate through its trading facilities and over OPRA a symbol with respect to such option indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.<sup>24</sup> Furthermore, no member or member organization or person associated with a member or member organization shall effect a trade on the Exchange in any option in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect. This is also based on the provisions of NOM and BX.<sup>25</sup> The Exchange believes that the new language proposed in Rule 1047(c) is helpful and explanatory for participants.

The Exchange proposes to delete existing Rule 1047(d), which provides that in the event that trading is halted in the underlying security on the primary market for such security, the specialist may halt trading in the option overlying such security, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option. Paragraph (d) is made redundant as a result of adopting paragraph (a) to address automated halts, and is obsolete because it refers to specialists. Specialists cannot halt an option. The type of control that specialists used to have over halts no longer exists; once the System became more automated,<sup>26</sup> there became no physical method for specialists to activate a halt.

The Exchange proposes to delete current paragraph (e) because the fact that trading in an option will be halted whenever trading in the underlying security has been paused is now

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<sup>24</sup> This is new language that is the same as NOM and BX rules, except it reflects the new automated halt process and thus is not tied to Exchange staff halting an option. See NOM Chapter V, Section 3(b), and BX Options Chapter V, Section 3(b).

<sup>25</sup> See NOM Chapter V, Section 3(c), and BX Options Chapter V, Section 3(c). Due to the differing terms that apply to membership and participation on each exchange, the NOM and BX Options rules refer to “Options Participants” while the Phlx rules refer to “members and member organizations.”

<sup>26</sup> See supra note 4.

covered by new paragraph (a)(i). In addition, the language in Rule 1047(e)(i) is now covered in new paragraph (g) in a more streamlined form. Rule 1047(e)(ii), which provides that the Exchange will maintain existing orders on the book, accept orders, and process cancels, is now in new paragraph (f), as explained further below.

The Exchange also proposes to renumber current paragraph (f) as paragraph (d) to improve the flow of the rule and align the paragraph numbers with those of NOM and BX.<sup>27</sup> The Exchange also proposes to amend subparagraph (f)(ii) in order to update an outdated reference to the Phlx XL system and use the general term “System” instead, as explained above.

The Exchange is proposing to renumber current paragraph (g) as new paragraph (e) without any substantive change to track the comparable provisions on NOM and BX.<sup>28</sup>

The Exchange proposes to adopt new paragraph (f) to provide that when a halt occurs, existing quotes will be cancelled; during a halt, the Exchange will maintain existing orders on the book (but not existing quotes), accept orders and quotes, and process cancels.<sup>29</sup> This provision is not new; it is currently in paragraph (e) and is being relocated to new paragraph (f), although it is also being modified to add reference to accepting new quotes (not just orders) for better clarity and understanding.

The Exchange proposes to adopt new paragraph (g) to govern the resumption of trading after a halt. Specifically, trading in an option that has been the subject of a halt shall be resumed: (A) in the case of a manual halt, upon the determination by an Options Exchange Official that the conditions which led to the halt are no longer present or that the interests of a fair and orderly

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<sup>27</sup> See NOM Chapter V, Section 3(d), and BX Options Chapter V, Section 3(d).

<sup>28</sup> See NOM Chapter V, Section 3(e), and BX Options Chapter V, Section 3(e).

<sup>29</sup> See also NOM Chapter V, Section 3(a)(vi)(B), which is located within the provision that governs halts due to a pause in the trading of the underlying security only; NOM and BX intend to correct it to make clear that it applies to all halts.



market are best served by a resumption of trading; or (B) in the case of an automatic trading halt, the conditions which led to the halt are no longer present, and, in either case, in no circumstances will trading be resumed before the Exchange has received notification that the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary market for the underlying security after ten minutes have passed since the underlying security was paused by the primary market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.<sup>30</sup> This provision is modelled on the rules of NOM and BX.<sup>31</sup> This provision also specifies that options trading resumes pursuant to Rule 1017, which outlines the automated opening process.<sup>32</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>33</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>34</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating

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<sup>30</sup> Rule 1047(b)(iv) currently contains a similar provision, except that the current rule contains an “and” and thus requires both conditions to be met to resume trading, and there is no specific reference to the resumption of trading of the underlying on at least one exchange. Presumably, the resumption of trading in the underlying on one exchange is an example of a condition that led to the options halt no longer being present, but the proposed language is more specific and thus clearer. The resumption of trading after a trading pause is currently in Rule 1047(e)(i).

<sup>31</sup> See NOM Chapter V, Section 4, and BX Options Chapter V, Section 4. The Exchange believes that this provision containing an “or” is more appropriate because it is more flexible in terms of permitting a resumption of trading.

<sup>32</sup> This is based on NOM Chapter V, Section 5.

<sup>33</sup> 15 U.S.C. 78f(b).

<sup>34</sup> 15 U.S.C. 78f(b)(5).

transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and to protect investors and the public interest, by deleting outdated or obsolete provisions and generally providing clarity to the rules. The proposal should result in a more accurate and understandable rule book. The amendments should make clear that the Exchange now simply ceases trading in an option rather than relying on a closing rotation, meaning the option stops trading without a manual process.<sup>35</sup> The proposal also deletes the obligation of the specialist to halt trading, because specialists cannot halt trading. These changes should promote just and equitable principles of trade by updating the rule to delete outdated and potentially confusing terms.

Furthermore, the Exchange is amending the rule to reflect that certain halts occur automatically while others are determined by specified Exchange staff, Options Exchange Officials. The Exchange believes it is more accurate to reflect that sometimes Exchange staff employ discretion in determining whether to halt (new paragraph (b)) and sometimes the System automatically halts (new paragraph (a)), which should both promote just and equitable principles of trade by tailoring the halt processes for options to the particular situations triggering a halt, consistent with the maintenance of fair and orderly markets. This restructuring and resulting renumbering should make the rule clearer. The Exchange believes that the situations listed in new paragraph (a) appropriately result in an automatic halt rather than relying on an Options Exchange Official, because those situations are objective and do not require the discretion or expertise of an Options Exchange Official. Accordingly, the Exchange believes automatic halts are appropriate and consistent with the Act.

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<sup>35</sup> See supra note 11.

In addition, the Exchange believes that the proposal to amend the definition of primary market is consistent with promoting just and equitable principles of trade. It is based on a more precise definition, tied to the market where the underlying security is listed, which is commonly understood to be the meaning of the term.

The Exchange believes that the proposed language regarding manual halts due to an occurrence of an act of God or other event outside the Exchange's control should promote just and equitable principles of trade by providing for a manual halt in serious, unanticipated circumstances. The Exchange also believes that the new language in paragraph (c) should promote just and equitable principles of trade by indicating when a halt has occurred and making clear that no trading is permitted during a halt. Furthermore, the Exchange believes that the language in new paragraph (f) that the Exchange will maintain existing orders on the book (but not existing quotes), accept orders and quotes and process cancels should promote just and equitable principles of trade by making it clear to market participants what occurs during a halt. Similarly, the proposed language in new paragraph (g) regarding the resumption of trading after a halt should promote just and equitable principles of trade by stating with specificity the conditions under which trading resumes.

Overall, the proposal is intended to help members understand how trading halts operate, which should also promote just and equitable principles of trade, consistent with the Act.

**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 competition not necessary or appropriate in furtherance of the purposes of the Act. The proposal raises neither intra-market nor inter-market competition issues because it merely deletes obsolete provisions and adds specificity.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>36</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>37</sup>

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 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:

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<sup>36</sup> 15 U.S.C. 78s(b)(3)(a)(iii).

<sup>37</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-106 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-2015-106. This file number should be included on the subject line if e-mail 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 (<http://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 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-Phlx-2015-106, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>38</sup>

Robert W. Errett  
Deputy Secretary

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<sup>38</sup> 17 CFR 200.30-3(a)(12).