

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76966; File No. SR-Phlx-2016-06)

January 22, 2016

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend a Quote Spread Parameter Provision

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 January 14, 2016, 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 amend Rule 1014(c)(i)(A)(1)(b) respecting U.S. dollar-settled foreign currency options (“FCO”) quote spread parameters, also known as bid/ask differentials, as described further below.

The text of the proposed rule change is below; proposed new language is italicized.

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**NASDAQ OMX PHLX Rules**

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**Rule 1014. Obligations and Restrictions Applicable to Specialists and Registered Options Traders**

(a) - (b) No change.

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

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

(c) In Classes of Option Contracts to Which Assigned—Affirmative Obligations. With respect to classes of option contracts to which his assignment extends, a Specialist and an ROT, whenever the ROT (except an RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker, to make a market, are expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

(i) Options on Equities (including Exchange-Traded Fund Shares), Index Options, and U.S. dollar- settled Foreign Currency Options.

(A)(1) Quote Spread Parameters (Bid/Ask Differentials)—

(a) Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the

primary market, or its decimal equivalent rounded up to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(b) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but less than \$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the prevailing bid is \$20.00 or more. The Exchange may establish differences other than the above for one or more series or classes of options.

(2) No change.

(d) - (g) No change.

••• *Commentary:* -----

**.01 - .19** No change.

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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

The purpose of the proposal is to update and clarify the quote spread parameters applicable to FCOs. Quote spread parameters establish the maximum permissible width between the bid and the offer in a particular option series. Quote spreads apply to quotes, not orders, and are thus only applicable to the quoting participants who are required to submit two-sided quotes. This includes specialists and the various types of Registered Options Traders (“ROTs”) enumerated in Rule 1014(b).

Specifically, the Exchange proposes to amend Rule 1014(c)(i)(A)(1)(b) respecting FCOs to parallel the following language in Rule 1014(c)(i)(A)(1)(a) respecting equity and index options: the Exchange may establish differences other than the above for one or more series or classes of options. The Exchange inadvertently did not add this language respecting FCOs, even though the ability to establish different quote spread parameters is contemplated in Options Floor Procedure Advice (“Advice”) F-6,<sup>3</sup> Option Quote Parameters. Advice F-6 provides that relief from the established bid/ask differentials may be granted upon the receipt of an approval of an Options Exchange Official.<sup>4</sup> This relief is clearly available for FCOs under Advice F-6 based on the placement of the language. The Exchange believes that, although the relief language in Advice F-6 implies (but does not expressly require) that a request must be made to the Exchange,

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<sup>3</sup> Options floor procedures advices generally correspond to Exchange rules and comprise the Exchange’s minor rule violation plan establishing preset fines for certain violations pursuant to Rule 19d-1(c) under the Act. 17 CFR 240.19d-1(c).

<sup>4</sup> An Options Exchange Official is an Exchange staff member or contract employee designated as such by the Chief Regulatory Officer. See Rule 1(w).

the result of any such relief would be to establish a different quote spread parameter.<sup>5</sup> If relief is granted, such relief applies to all market participants, regardless of whether a request was specifically made or whether it was made by one particular market participant. The Exchange certainly would not require that such relief be doled out participant-by-participant. The Exchange commonly announces such relief by issuing an Options Regulatory Alert.

Accordingly, the Exchange believes that adopting the proposed language to expressly permit different bid/ask differentials is clearer and parallels the language applicable to other options products, all of which trade on the same trading floor and through the same trading system. There is no reason why different quote spread parameters should be available to equity and index options and not FCOs, much like the relief provision in Advice F-6 applies to all options, including FCOs.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>7</sup> in particular, in that it is designed to promote just and equitable principles of trade and protect investors and the public interest by making it clear that respecting FCOs, just like all other options, different quote spread parameters can be established by the Exchange to address specific requests as well as general market events. This should promote just and equitable principles of trade and protect investors by having quote spread parameters reflect potential volatility and activity in the underlying

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<sup>5</sup> Some of the circumstances that may result in wider quote spread parameters include volatility in the underlying, recent news affecting the underlying and heavy volume in the underlying or the overlying option.

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

currency, and thereby encourage robust market making in FCOs that reflects current market conditions.

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. With respect to intra-market competition, the proposed language will apply to all quoting market participants equally. With respect to inter-market competition, market participants who disagree with the quote spread parameters that the Exchange establishes may choose to trade FCOs on another 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

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>8</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>9</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

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(a)(iii).

<sup>9</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.

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:

##### 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-2016-06 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-2016-06. 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 office 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-2016-06 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>10</sup>

Brent J. Fields  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).