

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83867; File No. SR-Phlx-2018-54)

August 16, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Codify the Definitions of the Protocols to Enter Quotes and Orders

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 August 14, 2018, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“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 remove text currently contained in Rule 1080(a) and relocate and add text into that section (a) to codify the definitions of the protocols that members can use to enter quotes and orders on the Exchange.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqphlx.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

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

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

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 Exchange proposes to: (i) retitle Rule 1080; (ii) remove the current rule text located at Phlx Rule 1080(a); and (iii) relocate the definition of the Specialized Quote Feed (“SQF”) from Commentary .01(a) of Rule 1080 to proposed 1080(a)(i)(b) and relocate the definition of the Options Floor Based Management System (“FBMS”) from Commentary .06 of Rule 1080 to proposed 1080(a)(i)(c) and codify the Financial Information eXchange (“FIX”) within Rule 1080(a)(i)(a).

**Rule 1080 title**

Rule 1080 is currently titled “Phlx.” The Exchange proposes to retitle Rule 1080 as “Electronic Acceptance of Quotes and Orders.”

**Rule 1080(a) “General”**

The Exchange proposes to delete paragraph (a), “General,” which defines the Exchange’s System using a prior system’s names AUTOM and AUTO-X, which terms are obsolete, as are references to and the functions of each.<sup>3</sup> Rule 1080(a) also refers to a successor system, Phlx

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<sup>3</sup> Manual execution by a specialist could occur in AUTOM. This first paragraph also refers to AUTOM routing orders to the specialist unit, and this rule governing order messages, all of which is obsolete. AUTOM and AUTO-X were replaced by Phlx XL. See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

XL, which is also obsolete.<sup>4</sup> The Exchange recently added a definition to its Rules at 1000(b)(45) which describes the Exchange’s System.<sup>5</sup>

The Exchange also proposes to delete cross-references to Rules 1014(b) and 1017, which are unnecessary. Rule 1014, entitled, “Obligations and Restrictions Applicable to Specialists and Registered Options Traders,” contains various definitions, including a Registered Options Trader at Rule 1014(b). The Exchange believes it is unnecessary to cite the specific rule. Further, Rule 1017 entitled “Openings in Options” does not require a specific citation.

**New Rule 1080(a)**

The Exchange believes that codifying definitions of these protocols in its rules will increase transparency around its operations.<sup>6</sup> The protocols used by members to submit quotes and orders play an important role in the operation of the System. The Exchange therefore believes that codifying definitions of these protocols in its rules will increase transparency around its operations.

The Exchange proposes to add a new section (a) entitled “Entry and Display of Orders and Quotes.” The Exchange proposes to state in proposed Rule 1080(a) “Members may enter orders and quotes into the System as specified below.” The Exchange proposes to add a section

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<sup>4</sup> Phlx XL was replaced by Phlx XL II, which was phased in over a period of time. See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

<sup>5</sup> See Securities Exchange Act Release No. 82577 (January 24, 2018), 83 FR 4354 (January 30, 2018) (SR-Phlx-2018-09).

<sup>6</sup> See Securities Exchange Act Release Nos. 83729 (July 27, 2018) 83 FR 37870 (August 2, 2018) (SR-ISE-2018-65); 83731 (July 27, 2018), 83 FR 37867 (August 2, 2018) (SR-GEMX-2018-26); and 83730 (July 27, 2018), 83 FR 37873 (August 2, 2018) (SR-MRX-2018-25). Nasdaq BX, Inc. was filed as SR-BX-2018-038. The Nasdaq Stock Market LLC will submit a similar filing to amend The Nasdaq Options Market LLC ports.

1080(a)(i) which provides, “The Exchange offers members the following protocols for entering orders and quotes respectively.”

Although the Exchange is changing how it categorizes various features included on FIX and SQF as part of its harmonization effort, the list of features included in the proposed definitions are intended to be exhaustive with respect to the buckets of information provided on each protocol. Overall, the Exchange believes that the proposed changes will allow members to more easily understand what information is available on which protocol.

A. Financial Information eXchange Ports

This protocol is not memorialized within the Exchange’s Rulebook, however rule changes describing FIX have been filed.<sup>7</sup> The Exchange proposes to now codify a description of FIX in its rulebook to add even greater specificity within proposed Rule 1080(a)(i)(A). The Exchange proposes to state that FIX is an interface that allows members and their Sponsored Customers to connect, send and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.

B. Specialized Quote Feed Ports

SQF is currently defined at Commentary .01(a) to Rule 1080 as “A specialist, RSQT or SQT may establish an option pricing model via a specialized connection, which is known as a specialized quote feed (“SQF”).” The Exchange proposes to remove this description from

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<sup>7</sup> See Securities Exchange Act Release No. 61665 (March 5, 2010), 75 FR 11967 (March 12, 2010) (SR-Phlx-2010-25). The FIX port was previously referred to as the “Order Entry Port” and described as a connection to routing orders to the Exchange via an external order entry port. Members access the Exchange’s network through order entry ports. A member organization may have more than one order entry port. The Exchange recently renamed the “Order Entry Port” as the “FIX Port” in the Exchange’s Pricing Schedule. See Securities Exchange Act Release No. 83194 (May 9, 2018), 83 FR 22555 (May 15, 2018) (SR-Phlx-2018-34).

Commentary .01(a) to Rule 1080 and relocate the definition to proposed Rule 1080(a)(i)(B) and instead a more descriptive definition of this protocol. The Exchange proposes the following:

SQF is an interface that allows Specialists, Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”) to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying and complex instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Specialist, SQT or RSQT.<sup>8</sup>

The Exchange believes that this information provides a more thorough description of the SQF protocol.

The Exchange also proposes to remove the remainder of Commentary .01(a) to Rule 1080, which provides, “Specialists, SQTs and RSQTs individually determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist, SQTs and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends.” The Exchange is no longer involved in the pricing models that its users choose. This rule text is obsolete. Specialists, SQTs, and RSQTs provide their quotations to the Exchange using their own proprietary models; the Exchange does not offer any pricing models to its members. The Exchange proposes to reserve this section.

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<sup>8</sup> All of the notification messages available on SQF ports as described above (i.e., options symbol directory messages, system event messages, trading action messages, etc.) are configurable in that Specialists, SQTs or RSQTs can select the specific types of notifications they wish to receive on their SQF ports. As such, SQF Purge Interface ports are a subpart of SQF ports that have been configured to only receive and notify of purge requests.

C. Options Floor Based Management System (“FBMS”)

The Exchange proposes to relocate the Options Floor Based Management System currently defined in Commentary .06 of Rule 1080 to proposed Rule 1080(a)(i)(C). No substantive changes are being made to the description. The Exchange proposes to delete .06 and also to delete .07 and .08 of the Commentary, which are currently reserved.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by removing obsolete text from its rules and adding greater transparency to the order and quote protocols available on Phlx.

The Exchange believes that renaming Phlx Rule 1080 will better describe the information contained in the rule. Also, removing obsolete rule text from Phlx Rule 1080(a) and Commentary .01(a) to Rule 1080 will remove confusion as to the System and its offerings. The rule text being removed is obsolete.

The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest as it codifies the protocols used to connect to the Exchange’s System. While no functional changes to the protocols are proposed in this filing, the Exchange believes that including a description of the protocols in its rulebook will benefit members by increasing transparency around the operation of the Exchange. Furthermore, the proposed definitions being included in the rulebook will more clearly and accurately reflect the information included on the protocols, and will be harmonized with language to be included in

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

the rules of its affiliated exchanges to the extent that the protocols operate in the same manner. The protocols described in this filing provide a range of important features to members, including the ability to submit quotes and orders, and perform other functions necessary to manage trading on the Exchange. The Exchange believes codifying the quote and order entry protocols will increase transparency to the members that use these protocols to connect to the Exchange.

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. As explained above, the Exchange is codifying the quote and order entry protocols that members use to connect to the Exchange's System. The obsolete rule text does not currently apply to any member on Phlx and therefore removing the inapplicable language will not impact any member on Phlx.

The Exchange does not believe that codifying the order entry protocols in the rulebook will have any competitive impact. Locating all the descriptions within a single rule and adding context around each order entry protocol will increase transparency around the operation of the Exchange without having any impact on inter-market or intra-market competition. All market participants have the ability to subscribe to the protocols for order entry. The quoting protocols are limited to the market participants who are permitted by rule to quote on Phlx, but the function is uniformly available to these eligible participants.

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>11</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>12</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:

#### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>12</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.



- Send an e-mail [to rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2018-54 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-2018-54. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-Phlx-2018-54 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>13</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).