

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84620; File No. SR-Phlx-2018-71)

November 19, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add Definitions to Rule 1000 and Amend Risk Protections

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 6, 2018, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II 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 add definitions to Rule 1000, titled “Applicability, Definitions and References,” amend Rule 1090, titled “Clerks” and amend Rule 1099, titled, “Risk Protections.”

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

¹ 15 U.S.C. 78s(b)(1).

² 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 purpose of this rule change is to adopt certain definitions within Rule 1000(b), amend Rule 1090, titled "Clerks" and amend Rule 1099, titled, "Risk Protections." Each change is described in more detail below.

Definitions

The Exchange proposes to amend Rule 1000(b) to add three new definitions into its Rulebook. These definitions are utilized in technical documents issued by the Exchange and will provide an ease of reference for understanding these terms. Specifically, Rule 1000(b)(51) would define an account number as a number assigned to a member organization. Member organizations may have more than one account number. Rule 1000(b)(52) would define a badge as an account number, which may contain letters and/or numbers, assigned to Specialists and Registered Options Traders. A Specialist or Registered Options Trader account may be associated with multiple badges. Finally, Rule 1000(b)(53) would define a mnemonic as an acronym comprised of letters and/or numbers assigned to member organizations. A member organization account may be associated with multiple mnemonics.

Risk Protections

Order Price Protection

The Exchange proposes to amend Rule 1099(a)(1) relating to the Order Price Protection or "OPP." The Exchange proposes to remove the example within Rule 1099(a)(1)(B)(i) which

states, “ For example, if the Reference BBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the Reference BBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.” The Exchange also proposes to remove the example within Rule 1099(a)(1)(B)(ii) which states, “For example, if the Reference BBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the Reference BBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.” The Exchange notes that while the examples remain accurate, the Exchange proposes to remove the text to conform the rule text to other risk protections. The Exchange does not believe it is necessary to have these examples within the rule text.

Market Order Spread Protection

The Exchange proposes to add language to the Market Order Spread Protection Rule in 1099(a)(2). First, Phlx proposes to add the word “trading” before the word “halt” within Rule in 1099(a)(2) for consistency. In the OPP rule, text halts are referred to as “trading halts.” This will avoid confusion as to the use of this term. Second, at the time Phlx filed to amend Market Order Spread Protection on Phlx, it noted in that rule change that this mandatory risk protection protects Market Orders³ from being executed in very wide markets.⁴ Specifically, it noted within footnote 11 that the Exchange may establish differences other than the referenced threshold for

³ Market Orders are orders to buy or sell at the best price available at the time of execution.

⁴ Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018) (SR-Phlx-2018-32).

one or more series or classes of options.⁵ At this time, the Exchange proposes to memorialize this capability within Rule 1099(a)(2) by stating, “The Exchange may establish different thresholds for one or more series or classes of options.” The Exchange believes that adding this provision to the rule will provide an easy reference as to the Exchange’s capability to establish different thresholds per options series or class.

Anti-Internalization

The Exchange proposes to replace the word “Exchange badge” with “market participant identifier” to more specifically describe this functionality. Also the Exchange is adding “...quotes and orders entered on the opposite side of the market by the same Specialist or Registered Options Trader using the same identifier” and is again replacing “badge” with “identifier.” The Exchange is identifying Specialists and Registered Options Traders in the System and preventing quotes and orders from the same Specialists or Registered Options Traders from executing. Finally the Exchange proposes to add the word “order” after complex in the last sentence of the Anti-Internalization paragraph for clarity.

Clerks

In order to avoid any confusion because the Exchange defined the term “badge,” the Exchange proposes to amend Rule 1090, which applies to Clerks on the Exchange’s trading floor. This use of the word badge was meant to indicate a physical identifier that is worn on the trading floor to identify members. Therefore, the Exchange is replacing the term “badge” with “identification” in Rule 1090.

⁵ Id.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Rule 1099(c)(2) from “Automated Removal of Quotes” to “Quotation Adjustments” to conform the title across Nasdaq markets.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁷ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules. Amendments to remove examples from the OPP rule text and add “trading” before the word “halt” within the Market Order Spread Protection rule text will bring conformity to Rule 1090. The Exchange’s proposal to add definitions to Rule 1000(b) will bring greater clarity to the Anti-Internalization functionality and to the Rulebook. The Exchange’s proposal to amend Rule 1090 to clarify its identification requirements for Clerks will also provide more clarity to that rule.

The Exchange’s proposal to memorialize the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Today, the Exchange has this ability, it is simply adding that text to the rule.

Finally, the Exchange’s proposal to amend the title of Rule 1099(c)(2) from “Automated Removal of Quotes” to “Quotation Adjustments” should better describe the rule and conform the title to other Nasdaq affiliate markets.

The proposals noted herein are consistent with the Act because they provide more detail and transparency to the Exchange’s rules noted herein to the benefit of market participants.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

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 Exchange believes that the proposed amendments do not impose an undue burden on competition because the definitions and amendments to conform the rule text will provide greater clarity as to the meaning of those terms. Memorializing the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Finally, the Exchange's proposal to amend the title of Rule 1099(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" is non-substantive.

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) of the Act⁸ and Rule 19b-4(f)(6) thereunder.⁹

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹⁰ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)¹¹ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposed rule change may become operative upon filing. The Exchange believes that waiver of the operative delay would allow the Exchange to immediately update its rules to bring greater clarity and transparency to the Anti-Internalization functionality, identification requirements for Clerks, and the Exchange's risk protections. Therefore, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.¹²

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 necessary or appropriate in the public interest, for the protection of investors, or 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 change should be approved or disapproved.

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii).

¹² For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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. Please include File Number SR-Phlx-2018-71 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-2018-71. 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-2018-71, 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.¹³

Eduardo A. Aleman
Assistant Secretary

¹³ 17 CFR 200.30-3(a)(12).