

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74197; File No. SR-Phlx-2015-11)

February 3, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add New Rule 1016 to Authorize the Exchange to Share Phlx XL Participant-Designated Risk Settings in Phlx XL

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 28, 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 the Substance of the Proposed Rule Change

The Exchange proposes to add new Rule 1016 to authorize the Exchange to share any Phlx XL participant-designated risk settings in Phlx XL, the Exchange’s trading system, with the clearing member that clears transactions on behalf of the Phlx XL participant.

The text of the proposed rule change is below; proposed new language is italicized; proposed deletions are in brackets.

**NASDAQ OMX PHLX Rules**

**Options Rules**

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[Rule 1016. Reserved.]

**Rule 1016. Exchange Sharing of Phlx XL Participant-Designated Risk Settings**

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

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

The Exchange may share any Phlx XL participant-designated risk settings in the trading system with the clearing member that clears transactions on behalf of the Phlx XL participant. For purposes of this rule a Phlx XL participant is any specialist, streaming quote trader or remote streaming quote trader.

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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 Exchange proposed to adopt new Rule 1016 to authorize the Exchange to share any Phlx XL participant-designated risk settings in Exchange’s trading system with the clearing member that clears transactions on behalf of the Phlx XL participant. For purposes of Rule 1016, a Phlx XL participant is any specialist, streaming quote trader (“SQT”) or remote streaming quote trader (“RSQT”).<sup>3</sup>

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<sup>3</sup> A Specialist is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a). An SQT is defined in Exchange Rule 1014(b)(ii)(A) as a Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An RSQT is defined in Exchange Rule in 1014(b)(ii)(B) as an ROT that is a member affiliated with an RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in

Phlx XL participants are required to be members of the Exchange.<sup>4</sup> Rule 1046 requires a member or member organization conducting an options business to either be: (i) a clearing member of The Options Clearing Corporation (“OCC”); or (ii) have a clearing arrangement with an Exchange member organization that is a clearing member of OCC. Further, pursuant to Rule 1052, every member organization which is a clearing member of the OCC shall be responsible for the clearance of the Exchange options transactions of each member or member organization who gives up the name of such clearing member in an Exchange options transaction, provided the clearing member has authorized such member or member organization to give up its name with respect to Exchange options transactions.

While not all Phlx XL participants are clearing members, all Phlx XL participants require a clearing member’s consent to clear transactions on their behalf in order to conduct business on the Exchange. Each Phlx XL participant that transacts through a clearing member on the exchange executes a Letter of Guarantee which codifies the relationship between each Phlx XL participant and clearing member and provides the Exchange with notice of which clearing members have relationships with which Phlx XL participants. The clearing member that guarantees the Phlx XL participant’s transactions on the Exchange has a financial interest in

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options to which such RSQT has been assigned. A Remote Streaming Quote Trader Organization or "RSQTO," which may also be referred to as a Remote Market Making Organization ("RMO"), is a member organization in good standing that satisfies the RSQTO readiness requirements in Rule 507(a). A ROT includes a SQT, a RSQT and a Non-SQT, which by definition is neither a SQT nor a RSQT and to which Rule 1016 will not apply. A Registered Options Trader is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014(b)(i) and (ii).

<sup>4</sup> As noted above, A Registered Options Trader is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014(b)(i) and (ii).

understanding the risk tolerance of the Phlx XL participant. The proposal would provide the Exchange with authority to directly provide clearing members with information that may otherwise be available to such clearing members by virtue of their relationship with the respective Phlx XL participants.

At this time, the risk settings covered by this proposal are set forth in Rule 1093, Phlx XL Risk Monitor Mechanism.<sup>5</sup> The Exchange may adopt additional rules providing for Phlx XL participant-designated risk settings other than those provided in Exchange Rule 1093 that could be shared with a Phlx XL participant's clearing member under the proposal, and the Exchange would announce these additional risk settings by issuing an Options Trader Alert.

## 2. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>6</sup> in general, and with Section 6(b)(5) of the Act<sup>7</sup> in particular, in that the proposal 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in

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<sup>5</sup> See Securities Exchange Act Release No. 53166 (January 23, 2006), 71 FR 4625 (January 27, 2006) (SR-Phlx-2006-05). The Mechanism provides protection to participants from the risk of multiple executions across multiple series of an option. Quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose market makers, who are required to continuously quote in assigned options, to potentially significant market risk. Specialists, SQTs and RSQTs (collectively, "Phlx XL participants") assigned in a particular option may establish a specified time period, not to exceed 15 seconds, within which a counting program will count the number of contracts traded in an option by such Phlx XL participant. When the Phlx XL participant has traded a certain number of contracts during the specified time period, the Risk Monitor Mechanism will automatically remove such Phlx XL participant's quotations from the Exchange's disseminated quotation in all series of the particular option.

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

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

securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The proposed rule change will allow the Exchange to directly provide a Phlx XL participant's designated risk settings to the clearing member that clears trades on behalf of the Phlx XL participant. Because a clearing member that executes a clearing Letter of Guarantee on behalf of a Phlx XL participant guarantees all transactions of that Phlx XL participant, and therefore bears the risk associated with those transactions, it is appropriate for the clearing member to have knowledge of what risk settings the Phlx XL participant may utilize within the Exchange's trading system. The proposal will permit clearing members who have a financial interest in the risk settings of Phlx XL participants with whom the clearing member has entered into a clearing Letter of Guarantee to better monitor and manage the potential risks assumed by clearing members, thereby providing clearing members with greater control and flexibility over setting their own risk tolerance and exposure and aiding clearing members in complying with the Act. To the extent a clearing member might reasonably require a Phlx XL participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the Phlx XL participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Phlx XL participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system.

B. Self-Regulatory Organization's Statement on Burden on Competition

Phlx does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. The proposed rule change is not designed to address any competitive issues and does

not pose an undue burden on non-clearing members because, unlike clearing members, non-clearing members do not guarantee the execution of a Phlx XL participant's transactions on the Exchange. The proposal is structured to offer the same enhancement to all clearing members, regardless of size, and would not impose a competitive burden on any participant. Any Phlx XL participant that does not wish to share its designated risk settings with its clearing member could avoid sharing such settings by becoming a clearing member of OCC.

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)(ii) [sic] 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 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,

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

<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.

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-2015-11 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-2015-11. 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 such 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-2015-11, 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).