

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76441; File No. SR-Phlx-2015-91)

November 16, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 1014, “Obligations and Restrictions Applicable to Specialists and Registered Options Traders”

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 2, 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 amend Phlx Rule 1014 entitled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to remove the maximum option price change from the Rule.

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

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 Exchange proposes to amend Phlx Rule 1014, entitled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders," to eliminate the provision providing for bids (offers) to be no more than \$1 lower (higher) than the last preceding transaction price for the particular option.

Today, Phlx Rule 1014 specifies, "Bidding no more than \$1 lower and/or offering no more than \$1 higher than the last preceding transaction price for the particular option contract. However, this standard shall not ordinarily apply if the price per share of the underlying stock or Exchange-Traded Fund Share has changed by more than \$1 since the last preceding transaction for the particular option contract. Further, this standard shall not apply to U.S. dollar-settled foreign currency options. Phlx Rule 1014 is applicable to specialists³ and Registered Options Traders⁴ (collectively "Market Makers"). Pursuant to Phlx Rule 1014(c)(i)(B), Market Makers are required not to bid more than \$1 lower or offer more than \$1 higher than the last preceding transaction price for the particular option contract (the "one point rule").

³ A specialist is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

⁴ A Registered Options Trader ("ROT") includes a Streaming Quote Trader ("SQT"), a Remote Streaming Quote Trader ("RSQT") and a Non-Streaming Quote Trader, which by definition is neither a SQT nor a RSQT. A Registered Option 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).

The Exchange proposes to eliminate the one point rule which sets maximum bid and/or ask differentials that may be quoted by Market Makers because market changes have rendered the rule obsolete and unnecessary. The one point rule applies to options on equities (including Exchange-Traded Fund Shares), Index options and U.S. dollar-settled Foreign Currency Options, to the extent applicable within the rule.⁵ The Exchange initially adopted this standard as a guideline for Market Makers; however, today, this restriction is no longer necessary. For example, today Market-Makers may stream electronic quotes and are subject to various electronic quotation requirements, including bid/ask quote width requirements contained elsewhere in Rule 1014.⁶ In addition, the Exchange has rules in place regarding trade-through and locked/crossed market requirements.⁷ The Exchange also has an obvious error rule that contains provisions on erroneous pricing errors and has in place certain price check parameters that will not permit the automatic execution of certain orders if the execution would take place outside an acceptable price range.⁸

At this time, the Exchange believes that the one point rule is not necessary and should be eliminated so as not to unreasonably constrain Market Makers when submitting quotes to the Exchange.

⁵ The one point rule does not ordinarily apply if the price per share of the underlying stock or Exchange-Traded Fund Share has changed by more than \$1 since the last preceding transaction for the particular option contract. Further, this standard does not apply to U.S. dollar-settled foreign currency options. See Phlx Rule 1014(c)(i)(B).

⁶ See Phlx Rule 1014(c)(A)(1).

⁷ See Phlx Rules 1083 and 1086.

⁸ See Phlx Rule 1092.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁰ in particular, in that it is designed to promote just and equitable principles of trade, 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, by eliminating this outdated rule which unnecessarily restricts bids and offers that may be entered by Market Makers. The Exchange has other price protections in place today, such as bid/ask quote requirements, locked and crossed market rules and obvious error rules which protect against certain price movements and constrain quoting.¹¹ Also, the Chicago Board Options Exchange Incorporated (“CBOE”) had a similar rule in place, which was eliminated in 2009.¹²

The Exchange believes that this constraint on Market Makers may in fact prove harmful. In a volatile market, Market Makers may find it necessary to move their quotes beyond the one point rule restriction of \$1 and would be unnecessarily constrained from moving quotes, while market makers on other options exchanges would not be subject to the same restriction on quoting. The Exchange believes that the one point rule does not serve a reasonable purpose in today’s market and should therefore be eliminated in order to remove impediments to and perfect the mechanism of a free and open market and a national market system.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ See Rule 1014 and supra notes 6 and 7.

¹² See Securities Exchange Act Release No. 60295 (July 13, 2009), 74 FR 35215 (July 20, 2009) (SR-CBOE-2009-049).

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 eliminating the one point rule does not impose an undue burden on inter-market competition because this constraint on quoting does not exist on other options exchanges,¹³ where market participants may quote without such restriction. Further, the Exchange believes that this constraint on Market Makers may in fact prove harmful. In a volatile market, Market Makers may find it necessary to move their quotes beyond the one point rule restriction of \$1 and would be unnecessarily constrained from moving quotes while market makers on other options exchanges would not be subject to the same restriction on quoting. The Exchange does not believe that this rule change imposes an undue burden on intra-market competition because there are other price protections in place today, such as bid/ask quote requirements, locked and crossed market rules and obvious error rules which protect against certain price movements and constrain quoting.¹⁴

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

¹³ For example, CBOE, The NASDAQ Stock Market LLC, and NASDAQ OMX BX, Inc. do not have such constraints.

¹⁴ See Rule 1014 and supra notes 6 and 7.

as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁵ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁶

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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2015-91 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.

¹⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁶ 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.

All submissions should refer to File Number SR-Phlx -2015-91. 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-2015-91, 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.¹⁷

Robert W. Errett
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).