

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82577; File No. SR-Phlx-2018-09)

January 24, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Relocate and Amend Rule 1080(l)

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 January 16, 2018, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“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 relocate and amend Rule 1080(l), entitled “Directed Orders” to new Rule 1068 with the same title. The Exchange is also proposing to amend Rule 1000(b) to add various definitions. The Exchange will also update cross references to Rule 1080(l) to reflect new Rule 1068.

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 Exchange proposes to relocate Rule 1080(l), entitled “Directed Orders” to new Rule 1068 with the same title. The Exchange is also proposing to amend Rule 1000(b) to add various definitions. Both of these proposals will be discussed below. The Exchange will also update cross references to Rule 1080(l) to reflect new Rule 1068. The Exchange also proposes to add more detail concerning the PHLX Depth of Market data feed and the CTI data feed.

Directed Orders

The rule text concerning Directed Orders is currently located at Rule 1080(l). The Exchange proposes to relocate this rule to Rule 1068, which is currently reserved, and title the new rule “Directed Orders.” The Exchange also proposes to amend the current rule to add clarity to the current rule text. Rule 1080 is rather lengthy and breaking this rule into a separate rule will make the rule easier to locate. A Directed Order is currently defined as any order (other than a stop or stop-limit order as defined in Rule 1066) to buy or sell which has been directed to a particular specialist, RSQT, or SQT by an Order Flow Provider. To qualify as a Directed Order, an order must be delivered to the Exchange via AUTOM.

The Exchange proposes to delete references to the Exchange’s trading system prior name “AUTOM,” which term is obsolete. The Exchange proposes to replace the term with System at proposed new Rule 1068(a)(i)(A), which below the Exchange is proposing to define at new Rule 1000(b)(45).

The Exchange proposes to amend the current rule text in new proposed Rule 1068(a)(ii), which currently states, “[w]hen the Exchange’s disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Specialist, SQT or RSQT is quoting at the Exchange’s **disseminated** price, the Directed Order shall be automatically executed and allocated in accordance with Rule 1014(g)(viii).” The Exchange proposes to replace the word “disseminated” with the word “best.” The Exchange notes that if a non-displayed implied order is resting on the book at the best price, that order would execute against the Directed Order and therefore the word disseminated is not accurate. The Exchange proposes to amend the sentence to reflect the current operation of the System when the Exchange’s disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Specialist, SQT or RSQT is quoting at the Exchange’s best price, the Directed Order shall be automatically executed and allocated in accordance with Rule 1014(g)(viii). The Exchange seeks to execute all orders at the best available price without trading through an away market.

The Exchange is also proposing to remove the words “by the specialist” at proposed new Rule 1068(a)(iv) so that the new sentence states, “If the Exchange’s disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be handled in accordance with Exchange rules.” The reference to “by the specialist” is not accurate as the specialist does not handle these orders. The Exchange does not permit manual handling of orders in its current rules. The System handles all orders entered for submission. Specialists used to be responsible for manual executions. The adoption of Phlx XL, a predecessor trading system, eliminated manual executions of System orders; all orders entered into the System can

only executed automatically by the System.³ The removal of the words “by the specialist” makes the sentence accurate.

Definitions

The Exchange proposes to adopt new definitions in Rule 1000(b). Specifically, the Exchange proposes to adopt a definition for the word “System” at Rule 1000(b)(45), which parallels the definition of System at The Nasdaq Options Market LLC (“NOM”) and Nasdaq BX, Inc. (“BX”) Rules at Chapter VI, Section 1(a). The Exchange proposes to define “System” to mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises: (A) an order execution service that enables members to automatically execute transactions in System Securities and provides members with sufficient monitoring and updating capability to participate in an automated execution environment; (B) a trade reporting service that submits “locked-in” trades⁴ for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a “locked-in” trading environment; and (C) the following data feeds:⁵

³ See Securities and Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59)

⁴ This refers to the process of submitting both sides of a trade for reporting and clearing, rather than performing a comparison process.

⁵ These data feeds have all been previously addressed in proposed rule changes and are now being codified in this rule to parallel NOM and BX Options rules at Chapter VI, Section 1. See Securities Exchange Act Release Nos. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92) (addressing TOPO Plus Orders), 66993 (May 15, 2012), 77 FR 30043 (May 21, 2012)(SR-Phlx-2012-63) (addressing PHLX Orders), 66967 (May 11, 2012), 77 FR 29440 (May 17, 2012)(SR-Phlx-2012-60)(addressing PHLX Depth of Market) and 62155 (May 24, 2010), 75 FR 30081 (May 28, 2010)(SR-Phlx-2010-67)(addressing CTI). See also Securities Exchange Act Release No. 68517 (December 21, 2012), 77 FR 77134 (December 31, 2012) (SR-Phlx-2012-136)

Top of PHLX Options (“TOPO”) is a direct data feed product that includes the Exchange's best bid and offer price, with aggregate size, based on displayable order and quoting interest on Phlx and last sale information for trades executed on Phlx. The data contained in the TOPO data feed is identical to the data simultaneously sent to the processor for the Options Price Regulatory Authority (“OPRA”) and subscribers of the data feed.

PHLX Orders is a real-time full limit order book data feed that provides pricing information for orders on the PHLX limit order book. PHLX Orders is currently provided as part of the **TOPO Plus** Orders data product. PHLX Orders provides real-time information to enable users to keep track of the single order book(s), single and Complex Orders, and Complex Order Live Auction (“COLA”) for all symbols listed on Phlx.

PHLX Depth of Market is a data product that provides: (1) order and quotation information for individual quotes and orders on the PHLX book; (2) last sale information for trades executed on Phlx; (3) auction and option symbol directory information; and (4) an Imbalance Message which includes the symbol, side of the market, size of matched contracts, size of the imbalance, and price of the affected series.

Clearing Trade Interface (“CTI”) is a real-time clearing trade update message that is sent to a member after an execution has occurred and contains trade details (e.g. trade corrections, trade cancels, options directory messages, Complex Order Strategy messages, trading action messages, halt and system event messages). The information includes, among other things, the following: (1) The Clearing Member Trade Agreement or “CMTA” or OCC number; (2) Exchange badge or house number; (3) the Exchange internal firm identifier; and (4) an indicator which will distinguish electronic and non-electronically delivered orders; (5) liquidity indicators and transaction type for billing purposes; (6) capacity.⁶

This description tracks the language in NOM and BX Rules, Chapter VI, Section 1, except it reflects the data feeds applicable to Phlx. These data feeds are available to subscribers,

(regarding Order Exposure). The Phlx data feeds differ in content from the NOM and BX data feeds.

⁶ With respect to the CTI feed, the Exchange notes that that CTI is a tool for members to receive real-time trade details. The Exchange is adding information to demonstrate examples of trade details (e.g. trade corrections, trade cancels, options directory messages, Complex Order Strategy messages, trading action messages, halt and system event messages). The Exchange notes that this additional language is intended to provide more specificity regarding the CTI data feed product. This is not new information, rather the original rule change noted that real time trade details are included in the feed. See Securities and Exchange Act Release No. 75 FR 30081 (May 28, 2010) (SR-Phlx-2010-67).

subject to the Exchange's Pricing Schedule.⁷ Specifically, with respect to the PHLX Depth of Market data product, the Exchange is proposing to add more detail concerning auction and option symbol directory information that is contained in the PHLX Depth of Market data product. The Exchange notes that this information was contained in the data feed at the time the data feed was filed. In addition to order and quotation information, auction information was available as well as the options symbol directories. The Exchange believes that this information is more specific to identify the content in the feed. The Exchange notes that any market participant may subscribe to this data feed. The Exchange also proposes to adopt the definition of "System Securities" at Rule 1000(b)(46). The Exchange proposes to describe System Securities to mean all options that are currently trading on the System. All other options shall be "Non System Securities." This also parallels the comparable NOM and BX provisions,⁸ although the Exchange does not at this time use the term Non System Securities in its rules.

The Exchange proposes to define the term "Order" at proposed Rule 1000(b)(47). The Exchange proposes to define Order as a single order submitted to the System by a member that is eligible to submit such orders. This is the same definition as contained in NOM and BX Rules at Chapter VI, Section 1(d).

The Exchange proposes to define the term "System Book Feed" at proposed Rule 1000(b)(48). The Exchange proposes to define System Book Feed as a data feed for System securities. This definition is similar to the definition contained in NOM and BX Rules, at Chapter VI, Section 1(h), and refers to the general process of gathering the Exchange's best bid and offer for dissemination to the OPRA.

⁷ See Phlx's Pricing Schedule at Chapter IX.

⁸ The NOM and BX definitions at Chapter VI, Section 1(b) refer to options traded pursuant to Chapter IV, which contains listing-like provisions. The Exchange does not believe this language is necessary, as all options must be listed pursuant to applicable listing rules.

The Exchange proposes to define the term “Agency Order” at proposed Rule 1000(b)(49). The term Agency Order shall mean any order entered on behalf of a public customer (which includes an order entered on behalf of a professional), and does not include any order entered for the account of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest. An agency order is currently defined in Rule 1080(b)(i)(A) as any order entered on behalf of a public customer, and does not include any order entered for the account of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest. The Exchange is making clear that professional orders are included in this general definition. The Exchange intends to remove the definition in Rule 1080(b)(i)(A) by filing a separate rule change.

Finally, the Exchange proposes to copy the definition of “Off-Floor Broker Dealer Order” currently contained in Rule 1080(b)(i)(C) to proposed Rule 1000(b)(50). The Exchange believes that the definition, which is utilized in other rules including Rule 1014 is better placed in Rule 1000. The Exchange intends to remove the definition in Rule 1080(b)(i)(C) by filing a separate rule change.

The Exchange believes that these definitions will serve to define key terms within the Rulebook to the benefit of the members. The Exchange also proposes to update a cross-reference to Rule 1080(l) within Rule 1014(g)(viii) to new Rule 1068.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

interest by updating Rule 1080(l) and relocating it to new Rule 1068 to make it easier to locate and clarifying the current rule text. In addition, the Exchange proposes to add definitions to Rule 1000(b) to define key terms within the Rulebook to the benefit of the members.

The Exchange's proposal to update cross references to Rule 1080(l) to reflect new Rule 1068 are consistent with the Act because the new cross references will update the accuracy of the Rulebook with respect to the rule numbering.

The Exchange's proposal to delete obsolete references to the Exchange's trading system prior name "AUTOM" and utilize the term System, which is being defined in Rule 1000, is consistent with the Act because the replacement of a defined term will add clarity to the intended rule text. The Exchange's proposal to replace the word "disseminated" with the word "best" in new proposed Rule 1068(a)(ii), is consistent with the Act because the Exchange seeks to execute all orders at the best available price without trading through an away market. The current sentence is not accurate. The proposed text reflects the current operation of the System. The elimination of the words "by the specialist" at proposed new Rule 1068(a)(iv) is consistent with the Act because the elimination of the words will correct a current reference to a manual process which no longer exists today. The Exchange does not permit manual handling of orders in its current rules. The System handles all orders entered for submission. The removal of the words "by the specialist" makes the sentence accurate and clarifies the current operation of the System to the benefit of members.

The Exchange's proposal to add definitions for System, System Securities, Order, System Book Feed which are similar to definitions contained in BX and NOM Rules and also are specific to operation of Phlx is consistent with the Act because these definitions will bring greater clarity to the use of those terms within the Rulebook. The Exchange's proposal to copy

the current terms, Agency Order and Off-Floor Broker-Dealer Order, to Rule 1000(b) is consistent with the Act because these terms are universal to the Rulebook and can be more easily located within the general definitions.

The Exchange's proposal to memorialize the data feeds, which were previously filed with the Commission, within the text of its rules is consistent with the Act because the new rule text will bring greater clarity to the Rulebook. Specifically, with respect to the PHLX Depth of Market data product, the Exchange is proposing to add more detail concerning auction and option symbol directory information that is contained in the PHLX Depth of Market data product. The Exchange notes that this information was available in the data feed at the time the feed was filed. In addition to order and quotation information, auction information was available as well as the options symbol directories. The Exchange believes that adding this additional information is consistent with the Act because the new information is more specific to identify the content in the feed. The Exchange notes that any market participant may subscribe to this data feed.

The Exchange noted in the original filing¹¹ that CTI is a tool for members to receive real-time trade details. The Exchange is adding information to demonstrate examples of trade details (e.g. trade corrections, trade cancels, options directory messages, Complex Order Strategy messages, trading action messages, halt and system event messages). The Exchange believes that this additional language is consistent with the Act because it provides more specificity regarding the CTI data feed product and provides greater transparency as to the information contained in the data product.

¹¹ See Securities and Exchange Act Release No. 75 FR 30081 (May 28, 2010)(SR-Phlx-2010-67).

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 proposed rule changes to new Rule 1068 serve to relocate and update the current rule text to eliminate an obsolete term, correct the text to reflect the current operation of the System and eliminate a reference to a manual Specialist process which no longer exists today. The addition of definitions to Rule 1000(b) does not impose an undue burden on competition, rather the definitions will bring greater clarity to the use of those terms within the Rulebook.

The Exchange also notes that in addition to the rule text which was previously filed for the PHLX Depth of Market data product, the Exchange is proposing to add more detail concerning auction and option symbol directory information that is contained in the PHLX Depth of Market data product. The Exchange notes that this detail concerning auctions and options symbol directories is more specific and although not noted in the prior rule change, adds more detail to the type of information that is disseminated in the data feed. The Exchange notes that any market participant may subscribe to this data feed.

The Exchange's additional detail in the CTI data feed product adds more detail to the description in the original filing¹² concerning real-time trade details. The Exchange offers examples of trade details (e.g. trade corrections, trade cancels, options directory messages, Complex Order Strategy messages, trading action messages, halt and system event messages) in this proposal. The Exchange believes that this additional language does not impose an undue burden on competition because the greater detail adds more specificity to the CTI data feed

¹² See Securities and Exchange Act Release No. 75 FR 30081 (May 28, 2010)(SR-Phlx-2010-67).

product and provides greater transparency as to the information contained in the data product. Further, the Exchange notes that any market participant may subscribe to this data feed.

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 Act¹³ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁴

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)¹⁵ 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 will become operative on filing. The Exchange stated that the proposed rule change promotes the protection of investors and the public interest by improving the organization and clarity of the Exchange's rules. Waiver of the operative delay would allow the Exchange, without delay, to utilize the proposed definitions in other rules and to

¹³ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁴ 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, 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.

¹⁵ 17 CFR 240.19b-4(f)(6)(iii).

continue to amend other sections of Rule 1080 for improved readability, 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.¹⁶

At any time within 60 days of the filing of such 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.

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-2018-09 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.

¹⁶ 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).

All submissions should refer to File Number SR-Phlx-2018-09. 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-2018-09, 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

Eduardo A. Aleman
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).