

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84180; File No. SR-Phlx-2018-58)

September 18, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 1080(A)(I)(C) Relating to Options Floor Based Management System

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 September 7, 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 amend Rule 1080(a)(i)(C) relating to Options Floor Based Management System (“FBMS”) in connection with offering an interface to submit orders to a particular Floor Broker on the options floor.

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 offer a new FBMS FIX interface which connects to FBMS ("FBMS FIX Interface")³ to allow members and non-members to submit orders directly⁴ to a Floor Broker on the Exchange's trading floor. Today, a market participant desiring to submit an order to the trading floor may contact a Floor Broker telephonically, electronically using an external order management system, or via instant message.⁵ An order submitted via the FBMS FIX Interface would be created by the sender and routed to a Floor Broker. This order would be systematized so that the Floor Broker⁶ automatically receives the order and may then represent the order for execution. A member or non-member would not be able to send the order directly to the trading system for execution. Orders entered via the FBMS FIX Interface will require the interaction of a Floor Broker. Orders will continue to be represented in the trading crowd, regardless of the method in which the order was received. Orders would be executed in the matching engine using FBMS, after all requirements for exposure have been met. The proposed new FBMS FIX Interface will allow the following types of orders to be submitted directly to a

³ This new interface is a separate and distinct connection from the existing FIX interface, which allows members to send orders to the electronic match engine.

⁴ The interface would allow the market participant to designate a particular Floor Broker through the use of a FIX tag.

⁵ An audit trail is maintained today for all orders received by a Floor Broker.

⁶ A Floor Broker's employee may also send an order into FBMS or the System on behalf of the Floor Broker.

Floor Broker: Simple Orders, Multi-leg Orders, Cross and Non-Cross Orders, Simple Cancels, Cancel and Replacement Orders and Floor Qualified Contingent Cross Orders.

The Exchange believes this new feature will enhance the workflow of a Floor Broker by permitting orders to be directly submitted into FBMS for handling. The Exchange believes that this new functionality will offer market participants another method to direct liquidity to a Floor Broker on the trading floor. The Exchange proposes to amend Rule 1080(a)(i)(C) to add the following sentence to the description of the FBMS protocol, “In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.”

Implementation

The Exchange proposes to implement this functionality in Q1 of 2019. Market participants will be notified of the deployment date by way of an Options Trader Alert, which will be posted on the Exchange’s website.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁸ 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 proposing another method for market participants to submit orders to a particular Floor Broker on the Exchange’s trading floor.

The proposal would offer market participants an alternative to the current methods of submitting an order to a Floor Broker which include: (i) calling a Floor Broker; (ii) electronically

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

using an external order management system, or (iii) utilizing instant message. The Exchange believes that this proposal will promote more efficient work flow and provide ease in sending liquidity to the Exchange's trading floor. The Exchange notes that the requirements for submission of orders for execution within FBMS will continue to exist. The Exchange believes that this proposal is consistent with the Act because it will continue to remove impediments to and perfect the mechanism of a free and open market and a national market system by continuing to require a Floor Broker to expose these orders in the trading crowd prior to execution. A Floor Broker would continue to submit any orders to the matching engine for execution using FBMS, after all requirements for exposure have been met. Finally, this proposal is consistent with the Act because it protects investors and the public interest by continuing to provide an audit trail for orders submitted through the FBMS FIX interface.

The Exchange notes that while it is permitting a broader group of market participants to have access to FBMS, in this case with the FBMS FIX Interface, the Exchange does not believe that this amendment raises concern with respect to the quality of information received by the Floor Broker because the Floor Broker remains responsible for ensuring the order is in the proper form and contains the appropriate information for submission. As noted herein, members and non-members would not be able to send orders directly for execution into the matching engine through the FBMS FIX Interface. The Exchange believes that this expansion only seeks to provide a Floor Broker with an order that is available for representation without the need for the Floor Broker to manually enter the order into FBMS.

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's proposal offers market participants the ability to send an order via the FBMS FIX

Interface to a particular Floor Broker. The Exchange believes that these proposed amendments do not create a burden on inter-market competition because all members and non-members may send orders to a Floor Broker via the FBMS FIX Interface. As is the case today, any member or non-member may contact a Floor Broker to submit an order to the Phlx trading floor. The Exchange notes that the proposed rule creates a new modality for member and non-members to send orders to a Floor Broker for representation. Floor Brokers conduct an agency business. Other market participants that conduct a market making business have varied workflows as compared to a Floor Broker and would not benefit from a similar FBMS FIX Interface. The Exchange believes that this new interface does not create an intra-market burden on competition for these reasons.

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 Act⁹ and Rule 19b-4(f)(6) thereunder.¹⁰

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.

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-2018-58 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-2018-58. 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-2018-58 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.¹¹

Eduardo A. Aleman
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).